SENIOR EXECUTIVE SERVICE BONUS PROGRAM

HEARING

BEFORE THE

SUBCOMMITTEE ON CIVIL SERVICE, POST OFFICE, AND GENERAL SERVICES

OF THE

COMMITTEE ON GOVERNMENTAL AFFAIRS UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

FIRST SESSION

APRIL 27, 1981

Printed for the use of the Committee on Governmental Affairs

U.S. GOVERNMENT PRINTING OFFICE
82-432 O WASHINGTON: 1981

S401-4

COMMITTEE ON GOVERNMENTAL AFFAIRS

WILLIAM V. ROTH, JR., Delaware, *Chairman*

CHARLES H. PERCY, Illinois	THOMAS F. EAGLETON, Missouri
TED STEVENS, Alaska	HENRY M. JACKSON, Washington
CHARLES McC. MATHIAS, JR., Maryland	LAWTON CHILES, Florida
JOHN C. DANFORTH, Missouri	SAM NUNN, Georgia
WILLIAM S. COHEN, Maine	JOHN GLENN, Ohio
DAVID DURENBERGER, Minnesota	JIM SASSER, Tennessee
MACK MATTINGLY, Georgia	DAVID PRYOR, Arkansas
WARREN B. RUDMAN, New Hampshire	CARL LEVIN, Michigan

JOAN M. MCENTEE, *Staff Director*
IRA S. SHAPIRO, *Minority Staff Director and Chief Counsel*

SUBCOMMITTEE ON CIVIL SERVICE, POST OFFICE, AND GENERAL SERVICES

TED STEVENS, Alaska, *Chairman*

CHARLES McC. MATHIAS, JR., Maryland	DAVID PRYOR, Arkansas

WAYNE A. SCHLEY, *Staff Director*
JAMIE COWEN, *Chief Counsel*
J. KNOX WALKUP, *Minority Staff Director*
PAT HALCOMB, *Chief Clerk*

CONTENTS

Opening statements: Page

Senator Stevens 1
Senator Percy 6

WITNESSES

MONDAY, APRIL 27, 1981

Richard S. Schweiker, Secretary, Department of Health and Human Services.. 2
Joseph R. Wright, Jr., Deputy Secretary, Department of Commerce 15
John Post, executive director, The Business Roundtable, accompanied by William S. Johnson, director, government programs, International Business Machines Corp 35
Donald J. Devine, Director, Office of Personnel Management 38
Milton J. Socolar, Acting Comptroller General, General Accounting Office, accompanied by Clifford I. Gould, Director, Federal Personnel and Compensation Division, and Robert Shelton, Deputy Associate Director, Federal Personnel and Compensation Division 46
G. Jerry Shaw, president, Senior Executives Association 54

Alphabetical list of witnesses:

Devine, Donald J.:
- Testimony 38
- Prepared statement 42
- Responses to written questions submitted by Senator Stevens 44

Gould, Clifford I.: Testimony 46
Johnson, William S.: Testimony 35
Post, John:
- Testimony 35
- Responses to written questions submitted by Senator Stevens 38

Schweiker, Richard S.:
- Testimony 2
- Prepared statement 13

Shaw, G. Jerry:
- Testimony 54
- Responses to written questions submitted by Senator Stevens 59

Shelton, Robert: Testimony 46
Socolar, Milton J.:
- Testimony 46
- Responses to written questions submitted by Senator Stevens 52

Wright, Joseph R., Jr.:
- Testimony 15
- Prepared statement 21
- Additional data on executive bonus practices in the private sector 24
- Responses to written questions submitted by Senator Stevens 33

Additional material submitted for the record:

Statements of:
- American Legion 60
- Classification and Compensation Society 77
- Department of Defense 81
- Department of Transportation 87
- Federal Executive Institute Alumni Association 91
- Irving, John S., Jr 105

"Federal Executive Pay Compression Worsens," report, Comptroller General, July 31, 1980 110

SENIOR EXECUTIVE SERVICE BONUS PROGRAM

MONDAY, APRIL 27, 1981

U.S. SENATE,
SUBCOMMITTEE ON CIVIL SERVICE,
POST OFFICE, AND GENERAL SERVICES,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, D.C.

The subcommittee met, pursuant to notice, at 8 a.m., in room 3302, Dirksen Senate Office Building, Hon. Ted Stevens (chairman of the subcommittee) presiding.

Present: Senators Stevens, Percy, Mattingly, Pryor, and Warner.

Staff present: Jamie Cowen, chief counsel; Pat Halcomb, chief clerk; Knox Walkup, minority staff director; Merry Halamandaris, minority staff member; Ken Ackerman; Margaret Sims; and Mitch Delk.

OPENING STATEMENT OF SENATOR STEVENS

Senator STEVENS. Good morning. This morning we are holding a hearing on the implementation of the Senior Executive Service, also known as SES, bonus program.

Pursuant to the Civil Service Reform Act, a senior corps of Government executives was established and called the Senior Executive Service. This group was in reality a restructuring of the supergrades in the civil service.

Numerous protections were removed from these individuals, accompanied by a pledge to remunerate those who performed their jobs in an outstanding manner. Under the system, a small percentage of career executives are eligible to receive Presidential awards for superlative work, and another 50 percent are eligible for bonuses ranging up to 20 percent of basic pay. The Presidential awards are granted by the President himself. The bonuses or performance awards are granted by a collection of agency executives called Performance Review Boards.

Last year, however, due to perceived abuses of the program's implementation, Congress reduced the number of career executives eligible for an award from 50 percent to 25 percent of the SES. The Office of Personnel Management further reduced the number to 20 percent.

I wish to state at the outset of this hearing that I strongly favor the bonus program. Thousands of career civil servants voluntarily sacrificed their job security to join the SES with the expectation of better pay and rewards for superior performance. The elimination of such incentives is unfair to those who risked their careers to assume these larger tasks.

My understanding is that 75 percent of capped senior executives who are eligible to retire do retire every year. This constitutes a management crisis in the executive branch. Proper implementation of the bonus program will go a long way to alleviate these problems. However, the burden is on the administrators of the program to prove to Congress that these bonuses are being fairly granted. Just because 50 percent of the career executives are eligible for bonuses does not mean that 50 percent are entitled to them. The Boards who determine who will receive such bonuses should not be in a position to grant themselves a bonus.

Finally, in no circumstance should these bonuses be used to circumvent the pay cap; the intent is to reward superior performance based upon a fully successful performance appraisal. Within the next few days I plan to introduce a measure to prevent future abuses in this program and thereby preserve it.

I am happy to say that our first witness this morning is our former colleague, and the now distinguished member of the President's Cabinet, the Secretary of Health and Human Services, my good friend—I almost said, Senator—Secretary Schweiker.

It is nice to see you, Dick.

TESTIMONY OF RICHARD S. SCHWEIKER, SECRETARY, DEPARTMENT OF HEALTH AND HUMAN SERVICES

Mr. SCHWEIKER. Thank you, Mr. Chairman. I am very pleased to be here and want to commend you for conducting this hearing as well as for your leadership in your new role in the Senate and on this subcommittee.

Mr. Chairman and members of the subcommittee, it is a pleasure to be here today to discuss the Senior Executive Service bonus program.

Let me say at the outset, Mr. Chairman, that I share the concerns you expressed in your letter, namely, that further efforts to limit or eliminate the bonus program will have serious repercussions among the SES community.

Furthermore, I am concerned about serious problems which already exist among career SES employees. New limitations or the termination of the bonus program will compound our problems in recruiting and retaining a competent corps of professional managers and executives in the fields of medicine, scientific research, insurance, and welfare administration.

Many of those employees who elected to become charter members of SES did so with feelings of reluctance. The new system of rewards and penalties was needed, but many executives feared that the Congress would not give the system a fair 5-year trial period.

Although the promise of Presidential executive rank awards was fulfilled, the promise of increased rates of pay for SES members never materialized. The schedule of higher rates of pay for SES members was published but never implemented. The pay cap not only eliminated expectations for financial gains from that source but meant that subordinates would receive the same salaries as their supervisors.

Expectations of substantial performance awards were lost in July 1980, when Congress amended the emergency supplemental appropriations bill to reduce the number of bonuses which might be

granted from 50 percent to 25 percent of the number of SES positions.

Concerned that the Congress might act to eliminate the bonus program entirely, OPM—U.S. Office of Personnel Management—further restricted the number and size of bonuses which the Departments and agencies might pay. The OPM guidance limited the number of bonuses to 20 percent and in addition provided that no more than 5 percent of those receiving bonuses could receive the maximum, and that at least 75 percent of all bonuses awarded would be $5,500 or less.

The effect of these actions by Congress and OPM was to demoralize the majority of SES employees. Members of the SES had thought that they had a valid agreement with the Federal Government when they gave up their veterans' preference and seniority rights and elected to join SES. Suddenly, the rules were changed without congressional hearings or the effort to obtain the views of executives impacted by those actions. The reaction of most of those executives was that the Government had "broken faith" with its managers.

I wonder whether it is apparent how compressed salaries have become. Although theoretically we have six pay rates in the SES, right now in HHS—U.S. Department of Health and Human Services—518 of our 520 SES executives receive one rate of pay, namely, $50,112.50. The other 2 executives make $52,750. Moreover, we have as many as seven successive levels of managers who all receive $50,112.50. The high performance manager cannot be rewarded in such a system if there is no bonus opportunity.

Critics of the bonus system give a number of reasons for the elimination or strict control of bonuses. Among the reasons cited most frequently are basic concerns that the system cannot be operated fairly.

For example, they contend that one group of executives will receive bonuses one year, and the remainder will get their bonuses the next—rotation—or that the Performance Review Board, or PRB, members will take care of themselves and their friends—"buddyism"—in passing out bonuses; or that too many bonuses will be paid at or near the maximum amount of 20 percent of base pay.

By reducing the number of bonuses which may be granted, the Congress has effectively blocked any possibility for "annual rotation of bonuses," if that intent ever existed in the minds of responsible Federal officials. I say "if that intent ever existed" because I do not believe that responsible career executives in HHS ever contemplated any such arrangement. To give support to such an idea is to question the integrity of highly respected members of various medical, scientific, and managerial professions who have served this Nation well.

My Department took exceptional pains to assure the integrity of the bonus system. Heads of our major components were urged to appoint persons to a Performance Review Board—PRB—who were respected by their peers as being fair and by their supervisors as being effective executives. As a matter of policy, we specified from the beginning that no PRB member should sit on a review panel while the panel reviewed the appraisal documents of that panel member or of his or her supervisor.

In virtually all cases the recommendations of the PRB were accepted by the component and agency heads. The component heads submitted their bonus recommendations to the Department in rank order. In making the final bonus decisions, my predecessor relied very heavily on the recommendations of the heads of the components.

In HHS we have a Performance Review Board roster containing the names of 144 individuals. Only 104 were actually eligible to receive a performance award. The other members were ineligible due to reasons, such as being members of the PHS Commissioned Corps, noncareer members, or nondepartmental employees.

We deliberately used these individuals to increase the objectivity of the performance awards process. Thirty-two PRB members, or 31 percent of those eligible, received bonuses. I believe the system operated fairly. I am not aware of any information that "buddyism" was practiced in HHS.

Further, the OPM guidance of July 21, 1980, effectively eliminated any possibility for granting top percentage bonuses to large numbers of bonus winners. In fact, some of our people at NIH—National Institutes of Health—have seriously questioned the appropriateness of giving a $3,000 or $4,000 bonus to a top scientist who is being recognized for an achievement which has earned international acclaim.

There are many positive effects which either have happened already or appear to be happening in HHS. They all relate to the fact that the bonuses are a critical element in making people take seriously the performance management system.

The whole idea of performance management is that employees will be rewarded or penalized based on the quality of their performance. Many organizations, both private and public, have had experience with performance management systems which have become mere paper-and-pencil exercises.

In such systems, employees and supervisors often go through the motions of setting objectives or writing performance plans, only to file the resulting document in the bottom of a desk drawer where it never again surfaces.

The two primary reasons for people not taking seriously such plans are that: one, the potential rewards and penalties are so small as to have no impact on behavior, or two, people perceive the system to be operating unfairly, so that they do not expect to be appropriately rewarded or penalized for their performance.

The evidence available so far from HHS's experience shows that SES executives throughout the Department did last year and do this year take seriously the performance management process.

It is important for this committee to know, as other congressional committees have been informed, that the Department of Health and Human Services is experiencing difficulty in attracting the quality level of candidates that are so important to effectively administer our programs.

With the lifting of the freeze, we will be recruiting again for high level administrators, scientists, and health and social insurance executives. I have mentioned the difficulty which the pay cap has given us in recruiting both for noncareer executives to fill the top administrative posts and for career executive positions.

While the bonus authority, provided in the Civil Service Reform Act, does not mitigate the pay cap, the possibility of a bonus is attractive to those candidates who feel they can make a significant contribution to the Department and who are willing to compete with other high performers. It is this quality of executive we are seeking to retain. The bonus is the only special tool we have left to recognize these people.

I would like to conclude my testimony with the assurance to this committee that bonus awards in the Department of Health and Human Services will continue to be made only to the most deserving executives. I am a proponent of performance management and rewards for excellence in performance. I will be demanding much from my career executives.

Cabinet officers and agency heads must have some authority to reward their effective career executives, and I believe this is to the Government's advantage.

This administration intends to improve Government operation. We must be able to reward those executives who will make the difference in this effort.

Thank you, Mr. Chairman.

Senator STEVENS. Thank you very much. Without objection, your full statement will be included in the hearing record at the conclusion of your testimony.

Senator Mattingly?

Senator MATTINGLY. I would like to ask you one question, Mr. Secretary. You made the comment that there is a program for rewarding as well as penalizing. What sort of program is there for penalizing someone for bad performance?

Mr. SCHWEIKER. In the sense that the cap freezes everyone's pay, a nonaward is a penalty. That is what I had in mind.

Senator MATTINGLY. In other words, if they have bad performance, if there is someone who does not perform well, he just does not get a raise. Is that how they are penalized?

Mr. SCHWEIKER. There is no financial disincentive.

Senator MATTINGLY. I see.

Mr. SCHWEIKER. I meant the absence of an effective way to go up the ladder.

I do not know whether you saw my statement. Basically, 518 of my 520 top people are all on one pay rate. They are compressed to the point that they are in only one pay rate, with the exception of two people. The result is that I have no managerial incentives of a financial nature.

Therefore, the penalty is that they get no recognition. The omission of a bonus, in effect, becomes a penalty because of our messed up pay cap system.

Senator MATTINGLY. I know that you have been sitting on this side longer than I have—suppose you had one person who was not doing the job. What would you do to penalize him?

Mr. SCHWEIKER. First of all, the CSRA bill also provides that I may transfer a person out of a position. After 120 days, I have the right to transfer a person.

Senator MATTINGLY. There is no way to eliminate him from the system totally. Is that right?

Mr. SCHWEIKER. If he were completely incompetent or completely malperforming, you could. It is a tedious procedure. It has been done. It is a procedure which you take reluctantly, just because it becomes such a Federal case, so to speak.

Nevertheless, it is one of things you do not rule out.

Senator MATTINGLY. I guess that is why I am questioning you. It places a tremendous restraint on you, if you have an incompetent person, to get rid of him.

Senator STEVENS. Under SES, they give up the security. In SES they can be demoted out of the SES category without the civil service protections which are there for those who are not SES.

Senator MATTINGLY. What I am trying to clarify is that we have a pretty fair system for rewarding people for competence, but where incompetence is concerned, the Secretary is restricted in——

Senator STEVENS. That is not true for SES.

Senator MATTINGLY. However, it is more difficult.

Senator STEVENS. No, it is not. It is less difficult for those in SES. They give up the job security which is there in the civil service supergrade. They may be demoted or transferred without the restrictions of the old civil service system.

I am not sure that the Secretary knows that yet, but he has a lot more authority there than he would in other places.

Mr. SCHWEIKER. Mr. Chairman, the thing I want to say again—and I cannot emphasize it too much—is that I think the new law which gives me the authority to make transfers is a very important tool. I see a tremendous willingness to cooperate on the part of SES people in the top grades.

I think it has to do with two things. I think it has to do with the bonus possibilities, which are obvious. However, the negative, penalty aspect is that you can transfer out of the top grades someone whom you feel is dragging their feet, incompetent, or not performing. You can either put them back to a GS–15, or you can give them a lateral transfer which, for all intents and purposes, becomes a de facto demotion.

Before we passed this bill, managers had very little flexibility. This bill gives us some flexibility but nothing like private industry has. I do not want to mislead you. It is not like private industry, but it is surely a big improvement over what we had.

Senator STEVENS. Senator Percy?

OPENING STATEMENT OF SENATOR PERCY

Senator PERCY. Mr. Chairman, I want to thank you and Secretary Schweiker for being here at these sunrise services. It is such an important matter.

I think we have heard allegations that the bonus system is not working as well as envisioned. Therefore, it should be abandoned.

There have perhaps been some cases of a bonus selection committee at an agency awarding bonuses to their own members, allegations that executives receiving bonuses were political favorites of agency heads rather than best performers, and so forth.

However, as I go back over the history of civil service reform, the senior executive bonus system was an absolutely essential part of it. People did elect and were encouraged to elect that service. They gave up certain privileges, protections, and security in exchange for

the possibility, the chance, that they could be rewarded for exceptional service.

If you pull that out from under them, I think you will destroy the basis and foundation of SES.

What would happen, Mr. Secretary, to the morale among senior executives in HHS if the SES bonus system were eliminated?

Mr. SCHWEIKER. I think we would see even more of an exodus of people from Government. According to my figures, 75 percent of the people who are eligible to retire are now retiring under the present system. There is no doubt in my mind that you would see an even quicker exodus.

I want to add that one of the reasons why I have many people at the higher level is because I have very competent, highly qualified scientists at NIH. A lot of scientists are there. They could go out tomorrow and double or triple their salaries in the area in which they are skilled and expert.

We are deluding ourselves if we think that it is only costing us money. This is one small lever we have to try to retain them. In fact, I have trouble now filling some of the really top positions at the NIH's managerial levels, just because of the cap.

To take this other tool away, is to encourage them to go back to private industry.

I have had a couple of cases wherein people were offered double what they are getting now. These are renowned scientists, including Nobel laureates. They can go out and command double or triple what we have to offer them.

Therefore, I hope that we do keep this kind of incentive. It is one of the few tools we have.

Senator PERCY. I think there is one disadvantage to having an 8 a.m. hearing, being that only a few hardy members of the press have arrived. The press gives such prominence to a few cases of abuse, creating a certain public perception in many States—certainly, it is so in Illinois.

Reading the papers on any day, you think that everyone is getting divorced or everyone is being murdered. The exception is the case which is generally given such prominence.

I think we must somehow communicate and get word out that in many cases the bonus system has performed well.

I know that you were not administering it at the time when the last bonus distribution was made, but have you heard of cases wherein the existence of the bonus system and the awards has increased productivity? Is there a sense of fairness among senior executives that outstanding achievement will be rewarded?

I cannot help but believe that, if someone brings a bonus home, a family is more supportive of the effort, of their coming home a little later, of their bringing a briefcase home, of their working a little harder, and of their leaving in the morning a little earlier.

However, if year after year there is no recognition given for the difference between a poor performer and a top performer, then I can understand why there would be a pressure of disincentive.

Have you instances which you could give us, either now or for the record, where in your huge agency you think the system has really worked?

Mr. SCHWEIKER. I certainly can, Senator Percy. I would like to mention just a few. In the Office of the Assistant Secretary for Management and Budget, effective management in the Office of Management Analysis and Systems resulted in a savings of $34.9 million in the automatic data processing procurement consulting services.

Oversight of the Department's fraud, abuse, and waste reduction initiatives resulted in over $500 million in savings. Obviously, the person responsible got an award for that kind of performance.

If we did not have this kind of tool, I do not know what incentive there would be to reward performance.

Here is another case. In the Office of Hearings and Appeals of the Social Security Administration. The processing rate was 117,945 cases in 6 months, compared to the former standard of 105,000 cases. That was a 9,000-case stepup, or nearly a 10-percent increase in productivity.

In the Office of Grants and Financial Contract Management, which is in the Office of the Assistant Secretary for Management and Budget, they implemented new policies, procedures, and organizations which led to resolution of 80 percent of the outstanding audit reports. Unresolved debts is one of the really big problems we have in our Department. Eighty percent were settled by a new innovative procedure.

Another illustration was through the successful management of quality control activities in HCFA; $80 million in Federal savings was realized in 1980, with an even larger target to be realized in the next fiscal year.

In the laboratory of neurophysiology at the National Institute of Mental Health, they devised a system for the objective measurement of motor functions in patients with Parkinson's disease. This system has greatly improved the evaluation of experimental treatment, so that we can tell whether or not treatment really works.

There are a number of specific things which we can cite which we relate our bonuses to in terms of increased ingenuity, creativity, performance, or improvements in savings.

Senator PERCY. Thank you very much for having those specific cases.

I think we have to look back at the experience of the private sector. I cannot name a really well-managed, well-run, highly regarded business organization which does not have some bonus system, some way of differentiating, year end, between outstanding, superior performance, and mediocre performance—of rewarding outstanding effort and higher productivity.

As a final question—as a former, very valuable Member of Congress, do you feel that we would have had enough experience at this stage to say, a few cases of possible abuse out of the many thousands of cases available, that we should throw the whole system out and go back to the same old ways? Or, should we just try harder to eliminate as much abuse as possible and do the best job we can of making this system work? It seems that the system has been well thought through and is supported solidly by the Congress and by the executive branch of Government and is for the most part working, outside of some abuses which have to be stamped out.

Mr. SCHWEIKER. Senator Percy, I think that we have certainly not given it a fair trial. I think what has happened is that there have been a few publicized abuses in the press which have received all of the play. The kind of examples which I am giving you here do not make the newspapers and probably will not. I think that is the unfair part of it.

I think my Department, as I look back on what my predecessor did, proceeded rather cautiously, very carefully, and quite selectively. I do not think you see the abuses in my Department as you do in a few of the news stories because my predecessor did set up a very methodical system.

Also, we have a management by objectives system in my Department which ties into the bonus system very nicely. We state objectives to our department heads and department personnel, and then they try to meet the goals. It gives us objective criteria by which to reward people who not only meet their goals but exceed them.

I think, with some good management and with some perseverance, we can make this system work quite well. It would be foolish to throw it away.

It is the only management tool a Secretary has.

Senator PERCY. I thank you very much indeed. Your testimony has been very valuable and helpful.

Senator STEVENS. Thank you.

I am delighted that such a distinguished lay leader is here for the sunrise service. [Laughter.]

Senator Mattingly has one more question.

Senator MATTINGLY. I agree with Senator Percy about the private sector and incentives. I think that is what makes the country go. Probably, no one promotes it more than I do in the U.S. Senate—that is trying to encourage incentives which is what we are trying to do with the budget, tax reform, and everything else.

The only comment I have is that the weight we are talking about right now is all on the bonus system which is fine to reward people for competence, but you as a manager or owner of a business—which is what I look upon you as, as a Secretary—should have the same latitude as people in the private sector do.

One thing we need to look for is to make sure that you have the same latitude, whether it is in management responsibility. You spoke of management by objectives which is something with which I am very familiar. You need to have the same latitude. The emphasis need not be totally on the bonus system. That is fine for incentives, but we need to look on the other side as well. If you have isolated cases of incompetence, whoever it may be, you need to have the same latitude as management has on the other side, rather than being restricted to moving someone after 120 days or giving him over to someone else such that he has the same problem you had.

What I am saying is that, if we are going to introduce legislation, let us have the legislation give you all of these prerogatives and management by objective goals which you really need.

Mr. SCHWEIKER. I would certainly favor more latitude in those other directions, Senator Mattingly. I do not disagree.

Senator MATTINGLY. I will try to help you get them.

Mr. SCHWEIKER. I am still getting used to some of my limitations compared to my private sector experience.

I do want to say that, up until we had SES, we had virtually no latitude at all. That was a step in the right direction, but we could surely use some more latitude.

Senator MATTINGLY. I would like to say that I have another sunrise service I have to go to.

Senator STEVENS. I hope that you keep in mind that the difference between this system and private enterprise is that you have a chance to get a new broom, based not upon the performance of the new broom but on someone else's performance. When the President comes in, Secretary Schweiker becomes the Secretary of HHS.

What I am saying is this. The impact of the system is such that there have to be some protections for people, or we would have no continuity at all in Government. It is a little different than private industry.

I have just one question for you, my friend. That is this. In your new role as Secretary, can you tell us what difficulties you have had recruiting people at this level?

Mr. SCHWEIKER. Let me just give you a couple of examples which relate to your question, and then I will answer the question directly.

We just lost Dr. Mary Jessie, Director of the National Heart, Lung, and Blood Institute's Division of Heart and Vascular Diseases about a year ago. She received nearly a 50-percent boost in pay, the right to a private practice, and increased insurance and retirement benefits which we could not match.

We lost Dr. Byron MacLees, the Chief of the Clinical Center, which is a critical care medical department. He accepted a position at Wake Forest University. That was a university position. It was for in excess of $100,000. It is not the industrial sector to which we are losing our scientists. We are losing them to academia. We are not competitive with academia, although we were at one point in time.

We lost Dr. Phillip Lederer of the National Institute for Child Health and Human Development. He accepted a position at Harvard at a much higher salary which is undisclosed at this time.

A few years ago, we lost Dr. Rauscher to the American Cancer Society and Dr. Arthur Upton to New York University.

I think that there are a number of key positions at NIH which are not filled. I mention this to give a backdrop to your question.

In terms of recruitment, the directorship of the Division of Cancer Cause and Prevention at the National Cancer Institute was offered to five outside candidates—I emphasize that there were five—all of whom turned it down, primarily for pay and benefit considerations.

One of those approached initially, who was asked to reply, wrote back an angry letter implying that the proposed salary was an insult. He had no conception of the limitations we operate under.

A distinguished scientist was simultaneously offered the SES position of Director, Center for Research on Mothers and Children at the National Institute of Child Health and a department chairmanship at Mt. Sinai Hospital for $150,000. He took the $150,000-position at Mt. Sinai Hospital. It was triple what we can offer.

The position of Director, Office of Financial and Actuarial Analysis at HCFA has been nationally advertised two times. The first time we advertised, we had two applications, neither of which was qualified. The second time we had 16 applications, 4 of which were highly qualified. Initially, the highest one declined because of salary. The second one accepted a better position.

I could go on and on, Mr. Chairman. It is getting very, very serious, trying to find the quality which we look for, particularly in our scientific positions as well as in our top managerial positions.

Senator STEVENS. You would do us a favor if you would ask your staff to give us, for the record, some of the further details along that line. Without objection, they will be included in the record at this point, when you supply them.

Mr. SCHWEIKER. I certainly will.

[The material referred to follows:]

ADDITIONAL EXAMPLES OF THE DEPARTMENT'S DIFFICULTY IN RETAINING KEY MANAGERS

We lost Pasquale Caligiuri, Associate Commissioner for Operations, SSA. He retired and became a Project Director for Aspen Systems Corporation in Bethesda. He said that he would not have retired had SES members been given a cost-of-living increase.

We lost Frederick Bohen, Assistant Secretary for Management and Budget. He left the Department to become Vice President for Finance and Operations, University of Minnesota. He cited a substantial salary increase as the reason for leaving.

We recently lost Dr. Rhetaugh Dumas, Deputy Director, National Institute of Mental Health. She left the Department for a position in the private sector where she will receive a salary increase of $15,000 plus an opportunity to augment this with outside consulting.

We lost Jan Prokop, Associate Commissioner, Office of Systems, SSA. He accepted the position of Executive Vice President, Data Resources, Inc., Boston, Massachusetts. He was serving in a career position and indicated that a higher salary was his primary reason for leaving. He said that there appeared to be no immediate prospect for the ceiling to be lifted.

Dr. Christian B. Anfinsen, Chief of the Laboratory of Chemical Biology, National Institute of Arthritis, Metabolism, and Digestive Diseases, has been offered a substantial increase in salary to work in Israel. He is eligible to retire and will do so to accept the job offer. Dr. Anfinsen is a Nobel Prize Laureate.

Dr. Robert I. Levy, Director of the National Heart, Lung and Blood Institute, will leave that position in June of this year, to accept a job at Tufts University. Dr. Levy has stated that a major reason for his leaving is salary, which will more than double at Tufts.

Additional examples of the Department's difficulty in recruiting new managers:

The search for a Director for the Division of Heart and Vascular Diseases, National Heart, Lung and Blood Institute, which lasted 18 months, eventually ended with the selection of an individual from within the Department. The position had been offered to several highly qualified outside candidates, all declined when the salary and benefits package was fully explained.

The search for the Chief, Office of Actuary, Social Security Administration, resulted in five highly qualified candidates. All except one turned down offers indicating salary as the primary reason. Fortunately, the person who accepted the position had other income deemed not to be a conflict of interest. The average salary in this field is in excess of $60,000.

Senator STEVENS. I am under the impression that the only possible chance which a Cabinet officer, such as you, has to get around the pay cap is the SES bonus program. You cannot really do it yourself. It is dependent upon the employee. The only thing you can do is to point out that there is a spirit of performance which can be rewarded under that system.

I think that if that is limited further or taken away, it would be taking away the last tool to encourage some of these people to join Government service.

Senator Pryor, do you have any questions of the Secretary?

Senator PRYOR. Mr. Secretary, we are glad to have you here before our committee this morning.

I have been somewhat concerned, and I think that some members of this committee, and certainly of the Congress, have been concerned with regard to the procedure for the giving out of bonuses. We have seen several news accounts of what people consider to be an unfair system of giving bonuses to certain individuals.

In fact, in some instances there is at least an implication of a kind of incestuous relationship there. On page 4 of your testimony you say that at HHS no senior executive member should sit on the Board while that Board reviews him. I wonder if that means that Board members could simply leave the room while their names are discussed, or is the prohibition more complete than that?

Mr. SCHWEIKER. There are two things. First of all, we have some people in the Senior Executive Service who, for one reason or another, are not eligible for bonuses. We encourage them to be chosen for the Board, so that we have a certain percentage who, because they are in the Public Health Service Commissioned Corps, or for some other reason, cannot receive it. We try to make up the Boards as much as possible with people who would be considered completely objective.

When that is not the case—and I think with reference to this testimony—they would leave the room when their particular case comes under discussion. We just do not have enough people to make a completely objective appraisal, unless we went to a level lower than their peer level. That would present a problem, too.

Mr. PRYOR. Mr. Chairman, right now I do not think I have any further questions. I may have some questions later.

Senator STEVENS. If you choose to submit them in writing, without objection, the questions and answers will be included in the record at this point.

Thank you.

We thank you, Mr. Secretary, for your appearance at an hour which some of my colleagues complain about.

I do not know whether Senator Warner has any questions or comments.

Senator WARNER. Not at this time, Mr. Chairman.

Senator STEVENS. Senator Warner represents almost as many Government employees as does Senator Mathias. The two of them are really the Senators who are most deeply involved in some of these matters than are any of the rest of us.

We are glad to have you here, Senator Warner.

Senator WARNER. Thank you very much.

Senator STEVENS. Thank you very much, Mr. Secretary.

Mr. SCHWEIKER. Thank you, Mr. Chairman.

Senator STEVENS. You are doing a great job, and we are proud of you.

[The prepared statement of Mr. Schweiker follows:]

PREPARED STATEMENT OF RICHARD S. SCHWEIKER, SECRETARY OF HEALTH AND HUMAN SERVICES

Mr. Chairman and Members of the Subcommittee, it is a pleasure to be here today to discuss the Senior Executive Service (SES) bonus program. Let me say at the outset, Mr. Chairman, I share the concerns you expressed in your letter that further efforts to limit or to eliminate the bonus program will have serious repercussions among the SES community. Furthermore, I am concerned about serious problems which already exist among career SES employees. New limitations or the termination of the bonus program will compound our problems in recruiting and retaining a competent corps of professional managers and executives in the fields of medicine, scientific research, insurance, and welfare administration.

Many of those employees who elected to become charter members of SES did so with feelings of reluctance. The new system of rewards and penalties was needed but many executives feared that the Congress would not give the system a fair five year trial period.

Although, the promise of Presidential Executive Rank awards was fulfilled, the promise of increased rates of pay for SES members never materialized. The schedule of higher rates of pay for SES members was published but never implemented. The pay cap not only eliminated expectations for financial gains from that source but meant that subordinates would receive the same salary as their supervisors.

Expectations of substantial performance awards were lost in July, 1980 when Congress amended the Emergency Supplemental Appropriations Bill to reduce the number of bonuses which might be granted from 50 percent to 25 percent of the number of SES positions.

Concerned that the Congress might act to eliminate the bonus program entirely, OPM further restricted the number and size of bonuses which the departments and agencies might pay. The OPM guidance limited the number of bonuses to 20 percent and in addition provided that no more than 5 percent of those receiving bonuses could receive the maximum, and that at least 75 percent of all bonuses awarded would be $5,500 or less.

The effect of these actions by Congress and OPM was to demoralize the majority of SES employees. Members of the SES had thought that they had a valid agreement with the Federal government when they gave up their Veterans preference and seniority rights and elected to join SES. Suddenly the rules were changed without Congressional hearings or the effort to obtain the views of the executives impacted by those actions. The reaction of most of those executives was that the Government had "broken faith" with its managers.

I wonder if it is apparent how compressed salaries have become. Although theoretically we have six pay rates in the SES, right now in HHS 518 of our 520 SES executives receive one rate of pay, $50,112.50. The other two executives make $52,750. Moreover, we have as many as seven successive levels of managers who all receive $50,112.50. The high performance manager cannot be rewarded in such a system.

A measure of the seriousness of the morale problem was reported on April 7 to the Subcommittee on Civil Service, House Committee on Post Office and Civil Service. The Federal Executive Institute Alumni Association reported the results of a recent survey of 228 SES members. When asked whether they would leave the SES if that option were available, 85 percent reported that they would.

Critics of the bonus system give a number of reasons for elimination or strict control of the bonuses. Among the reasons cited most frequently are basic concerns that the system cannot be operated fairly, e.g., (1) that one group of executives will receive bonuses one year and the remainder will get their bonuses the next year (rotation); (2) that the Performance Review Board (PRB) members will take care of themselves and their friends (buddyism) in passing out bonuses; and (3) that too many bonuses will be paid at or near the maximum amount of 20 percent of base pay.

By reducing the number of bonuses that may be granted, the Congress has effectively blocked any possibility for "annual rotation of bonuses" if that intent ever existed in the minds of responsible Federal officials. I say "if that intent ever existed" because I don't believe that responsible career executives in HHS ever contemplated any such arrangement. To give support to such an idea is to question the integrity of highly respected members of various medical, scientific, and managerial professions who have served this Nation well.

My Department took exceptional pains to assure the integrity of the bonus system. Heads of our major components were urged to appoint persons to a Performance Review Board (PRB) who were respected by their peers as being fair and by their supervisors as being effective executives. As a matter of policy we specified from the beginning that no PRB member should sit on a review panel while the

panel reviewed the appraisal documents of a panel member, or of that panel member's supervisor.

In virtually all cases the recommendations of the PRB were accepted by the component and agency heads. The component heads submitted their bonus recommendations to the Department in rank order. In making the final bonus decisions, my predecessor relied very heavily on the recommendations of the heads of the components.

In HHS we have a Performance Review Board roster containing the names of 144 individuals. Only 104 were actually eligible to receive a performance award. The other members were ineligible due to reasons such as being members of the PHS Commissioned Corps, noncareer members, or nondepartmental employees. We deliberately used these non-SES members to increase the objectivity of the performance awards process. Thirty-two PRB members (31 percent of those eligible) received bonuses. I believe the system operated fairly. I am not aware of any information that "buddyism" was practiced in HHS.

Further, OPM guidance of July 21, 1980 effectively eliminated any possibility for granting top percentage bonuses to large numbers of bonus winners. In fact, some of our people at NIH have seriously questioned the appropriateness of giving a $3,000 or $4,000 bonus to a top scientist who is being recognized for an achievement that has earned international acclaim.

There are many positive effects that either have happened already or appear to be happening in HHS. They all relate to the fact that the bonuses are a critical element in making people take seriously the performance management system.

The whole idea of performance management is that employees will be rewarded or penalized based on the quality of their performance. Many organizations, both private and public, have had experience with performance management systems that have become mere paper-and-pencil exercises. In such systems, employees and supervisors often go through the motions of setting objectives or writing performance plans, only to file the resulting document in the bottom of a desk drawer where it never again surfaces. The two primary reasons for people not taking seriously such plans are that: (1) the potential rewards and penalties are so small as to have no impact on behavior, or (2) people perceive the system to be operating unfairly, so that they do not expect to be appropriately rewarded or penalized for their performance.

The evidence available so far from HHS's experience shows that SES executives throughout the department did last year and do this year take seriously the performance management process. It is clear that the bonus system has been a significant factor in this success. We held a conference for members of HHS's PRBs on March 6. Their discussion of the processes and problems has provided some of the material that I have already discussed. Here are some of the things that have happened in HHS:

1. SES career executives (as well as merit pay employees) have developed performance plans.

2. The SES members and their supervisors are now, as part of their jobs, talking to each other explicitly about performance plan objectives. Dr. Thomas Malone, Deputy Director of NIH, reported in a meeting of the PHS Executive Resources Board that Institute Directors at NIH are talking together in new ways about problems in executive management that they had not discussed previously. There is anecdotal evidence that many supervisors are being forced by the performance management system to become better managers of their subordinates.

3. In HHS, the Performance Review Boards (of which there are 11) review the performance plans after the individual employees and their supervisors have approved them. The PRB's look for well defined objectives and performance levels and try to ensure a reasonable level of equality in the difficulty and comprehensiveness of the plans within their agency.

4. The Performance Review Board process is providing an incentive for supervisors of SES members to evaluate their subordinates fairly. PRBs during the last cycle dealt with issues of "hard" raters vs. "easy" raters, raters who were inconsistent or biased in their appraisals of subordinates, and the relative difficulty of the SES members' jobs and performance plans. The average PRB member in HHS spent about 23 hours on the performance appraisal and bonus recommendation process, and dealt with about 18 employees' appraisals. Each appraisal was reviewed by at least three PRB members. In HHS there were about 130 PRB members who participated in the appraisal review process; they reviewed appraisals for about 550 executives.

PRB members themselves believe that the process was quite fair, although not without problems. They indicated in a recent survey conducted by HHS that their most serious problems are in dealing with variability among raters, lack of clear

performance standards in plans, and the varying difficulty of jobs. These problems are not unexpected and are part of a developing system.

5. We believe that productivity is improving, although it is still too early to know for sure. Anecdotal evidence points to the increasing linkage of individual goals to organizational goals, and the very serious efforts that people are making to achieve those goals.

I should note here that HHS is launching a three-year research effort to evaluate the impact of SES. One part of that research project will obtain SES members' perceptions about the system. Another part will involve case studies of HHS programs and will be seeking evidence regarding the impact of Civil Service Reform on productivity. The elimination of SES bonuses will take away a significant opportunity to determine whether or not the bonuses do influence productivity.

6. Although many SES and PRB members have complained that the effort has been excessive relative to the rewards available, they appear to be nearly unanimous in their support of the performance management system. However, the key fact to remember is that the performance management system will very likely fail unless some sort of rewards are available. This is not to say that there are not other motives for doing well. People at an executive level perform well because of many reasons: personal and professional pride, excitement and enjoyment of their jobs, and support of peers, to name a few. Most of these people performed well before there was a bonus system, and the majority would continue to perform well if the bonuses were eliminated. However, the positive effects we have seen because of the implementation of the performance management system would probably disappear overnight.

7. It is important to remember that the bonuses awarded for fiscal year 1980 performance were, in fact, tangible evidence to a group of top performers that the Department could and would reward ". . . excellence in performance by career appointees . . ."

It is important for this Committee to know, as other Congressional Committees have been informed, that the Department of Health and Human Services is experiencing difficulty in attracting the quality level of candidates that are so important to effectively administer our programs.

With the lifting of the freeze we will be recruiting again for high level administrators, scientists, and health and social insurance executives. I have mentioned the difficulty the pay cap has given us in recruiting both for non-career executives to fill the top administration posts and for career executive positions.

While the bonus authority, provided in the Civil Service Reform Act, does not mitigate the pay cap, the possibility of a bonus is attractive to those candidates who feel they can make a significant contribution to the Department and who are willing to compete with other high performers. It is this quality of candidate we are seeking to recruit and this quality of executive we are seeking to retain. The bonus is the only special tool we have left to recognize these people.

I would like to conclude my testimony with the assurance to this Committee that bonus awards in the Department of Health and Human Services will continue to be made only to the most deserving executives. I am a proponent of performance management and rewards for excellence in performance. I will be demanding much from my career executives. Cabinet officers and agency heads must have some authority to reward their effective career executives and I believe this is to the Government's advantage.

This Administration intends to improve Government operation. We must be able to reward those executives who will make the difference in this effort.

Senator STEVENS. Mr. Wright, the Deputy Secretary of Commerce.

TESTIMONY OF JOSEPH R. WRIGHT, JR., DEPUTY SECRETARY, DEPARTMENT OF COMMERCE

Mr. WRIGHT. Good morning, Mr. Chairman. I have a statement which, rather than reading, I will submit for the record. I would like to make a couple of comments before responding to your questions. I am particularly delighted to be here this morning, even at this hour. Most of my career has been spent in the private sector. I spent a great deal of time on incentive systems in corporations, as, you will find, any executive does within major corporations in the private sector.

It is very obvious that the old quote applies, namely, man does not live by bread alone. However, I think it is extremely important that he does not live without it.

While you have many types of incentive which drive one toward good performance, within this country, I believe that direct remuneration is probably the major incentive which you can provide to employees and management alike.

Within the private sector, we have found that bonuses along with stock option plans and profit-sharing plans are probably the most important management tools which executives within private corporations have to reward performance. Equally important is the expectation of incentives for good performance.

We spent a great amount of time putting together incentive systems, appraisal systems, conducting the appraisals, and awarding incentives. As a matter of fact, the senior executive within a corporation will probably spend around one-fifth to a quarter of his time working primarily on these types of packages to make sure that the organization achieves the goals which he establishes.

Earlier in my career, I was with a consulting firm. I must have worked with at least 50 or 60 private corporations. Not once did I ever see one which did not have an incentive system which included bonuses nor think that it was a vital tool to make sure that they were able to achieve the goals of the organization.

Obviously, Congress in 1978 felt that there was something seriously lacking in the ability of the executive branch to compensate its senior executives. It passed the Civil Service Reform Act of 1978 to provide the incentives but also to compete with other careers than those in the executive branch.

While we within the Government are working hand in hand—or we should be working hand in hand—with the private sector, when it comes to employment, we are in competition. I think that it is extremely important that we realize that the Civil Service Reform Act of 1978 gave us an opportunity, not only to manage our departments better but to compete with the private sector for senior level employees.

Now, the restrictions have reduced the impact. The entire act, in terms of its key components, is threatened. In effect, we are almost breaking a contract with the SES employees in the moves which have been taken during the past year. If we do get rid of the bonus system in the SES, the effect, sir, will be to return to the promotion of average performance, average management, and low morale within the Federal Government.

We need help in terms of being able to command good performance within the executive branch, and we ask the Congress not to take away the major incentive we have to get our organizations to perform to the expectations of Congress and the executive branch.

Thank you very much, sir.

Senator STEVENS. Thank you, Mr. Wright. Without objection, your complete testimony will be included in the record following your testimony.

Where was your experience in the private sector?

Mr. WRIGHT. Immediately prior to coming to the Department of Commerce, sir, I was with Citicorp for 6½ years in New York.

Earlier in my career I was with the management consulting firm of Booz-Allen & Hamilton for 7 years.

Senator STEVENS. Do you have a ballpark figure on how many executives in the private sector, with whom you are familiar, are eligible for the bonus system or are under a bonus system?

Mr. WRIGHT. Let me talk about Citicorp to start and the system which it had. I believe that Citicorp was probably one of the toughest managed firms, under Walt Wriston, which exists in the private sector.

The compensation packages, particularly on the performance side, were one of the major vehicles which that firm used in order to manage a very aggressive program of growth. All employees, once they had been there for 2 years, were part of a profit-sharing plan which was geared toward the total bottom-line performance of the firm. That was extremely important.

You will find that, during the past year, the corporation did not achieve its objectives, and there was no profit sharing to the employees. It made a substantial impact. As one of the senior executives, I was on the receiving end of the concerns of many of the employees.

Second, for senior executives you had a stock option plan which consists of book value or market value stock options. They were extremely important and were awarded carefully.

There was also a bonus package which was awarded on the basis of performance. Most importantly, there were MBO's which were set up at the beginning of every year. On the same form, at the end of the year, we recorded exactly what the performance was. Bonuses were awarded accordingly.

The total percentage which applied to senior managers was 100 percent. The actual award depended totally upon the performance of the individual as well as of the corporation.

In terms of the net results, I would say it was somewhere in the range of 25 to 30 percent who actually got bonuses, but there was a combined package which is a very powerful incentive.

Senator STEVENS. Thank you very much.

Senator Pryor?

Senator PRYOR. Thank you, Mr. Chairman.

Mr. Secretary, it appears to me—and I am certainly a layman with respect to this whole issue—that each agency in the federal system has its own system for making these bonus awards. Is that generally your perception?

Mr. WRIGHT. No, sir. I do not believe that they have their own system. I believe there are general guidelines and rules.

Senator PRYOR. The Office of Personnel Management establishes guidelines.

I have noticed in your department—I was not going to bring this up because I bring it up in every hearing, but I will—has awarded about $56,000 in consulting contracts to devise a system. I will not unnecessarily bemoan that fact.

It appears that 41 percent of the Performance Review Board members have received bonuses or bonus awards. I wonder if that disturbs you in any way.

Mr. WRIGHT. We have 211 members departmentwide, who are on the Board rosters. Twenty-eight received bonuses.

Let me answer your question directly in terms of whether or not it upsets me. No, sir. It does not. I believe strongly that the system, while imperfect, has worked reasonably well within the Department of Commerce because of the numbers which I have seen so far. I am surprised that within the first several years there have not been more problems.

Whenever you put in a new executive compensation program, whether it is within a private corporation or within the Federal Government, one which is dramatically different than any you have had before, you can expect problems. It does not surprise me to see a consultant contract go out.

As a matter of fact, as an ex-consultant, I think I would say that is responsible.

Senator PRYOR. We will talk about that later. [Laughter.]

Mr. WRIGHT. It is a new system. It is one which must be slightly confusing to those members of the executive branch who first received it. I would applaud their efforts to make sure that it works as well as possible.

In terms of those who are eligible, it should work the other way around. We need more tools right now. We do not need less tools with greater restrictions.

If the Secretary or the Deputy Secretary of any Cabinet department is misusing the system or not using it as a primary incentive for his managers, then he or she should be removed. It is not the system itself.

Again, we need more flexibility to compensate performance, not less.

Senator PRYOR. I do not think that the Comptroller General has in any way castigated the Department of Commerce. In the reports which I read they did cast a jaundiced eye on some of the contracts which were given out, but I do not specifically recall any with the Department of Commerce.

Across the entirety of the Federal system, there was a survey. About one-third of SES members responded to a Merit Systems Protection Board survey by saying that bonuses do not go to the best performers. About 45 percent of those interviewed reported instances of bonuses going to management favorites.

These are the sort of things which give us trouble in the legislative branch, when we try to dispel these perceptions if they are false. Here, it looks as though there is a great deal of truth to the perception that management favorites get these awards.

I think it is the system by which they are awarded which is coming under attack.

Mr. WRIGHT. Senator, my response to that is that I believe, again, that the system will continually have to be worked upon. In the private sector this is something which you do on an annual basis with a great deal of intensity. It is done by the top management of any corporation.

Therefore, I would not disagree with you at all.

I believe that you have to look at a percentage or the amount of abuse compared to the total system which is in place over a number of years. You have to see how serious it is and focus upon those areas which are problems, rather than attack the entire system.

The reason for the act was, I think, a very good one. I believe it does not go far enough. It has been reduced. It has been limited. There is no question that there will be abuses in any system which you put in, but let us not go after the entire package because of those spotty abuses.

I might add one part, which was in my testimony, if I may, Mr. Chairman. Responding to a question in a recent SES survey conducted by the Department, 70 percent of the SES respondents disagreed that the SES bonus revisions established by Congress and OPM are fair and reasonable. In other words, they believe that they were not fair and reasonable.

Seventy-six percent of them indicated that their payable compensation package is insufficient right now. This is compared, obviously, to what they see for their private counterparts.

Only 52 percent of the same group responded in a similar fashion to the exact same question just prior to our implementing the SES.

In effect, what you have is a group of people who have joined the SES system which was established by Congress, who now believes that you are not following through. I guess I should say that they believe we are not following through on the promises which have been made to them as to the compensation which they will have for performance.

I think this is a very dangerous trend which is occurring, when we absolutely have to have top performance from the executive branch.

Senator PRYOR. Mr. Wright, those are all the questions I have. I may have questions to submit in writing to the Secretary. Thank you.

Senator STEVENS. Without objection, the questions and answers will be included in the record at this point, if you choose to submit any.

Senator Warner?

Senator WARNER. Thank you, Mr. Chairman.

Mr. Secretary, perhaps we could get a basis of comparison between what I believe the chairman and the other members of the subcommittee and I—and I support them wholly—are trying to achieve today and what presently exists in the Fortune 500 list. Do you know whether anyone compiles lists of what might be a cross-section of the Fortune 500 companies as opposed to what we are endeavoring to achieve on behalf of Federal employees?

Mr. WRIGHT. Senator, I do not have that at my fingertips right now, but we should be able to get it. There are consulting firms which provide this information readily and stay on top of it. We will be more than happy to get the information provided for the record.

Senator STEVENS. Without objection, it will be included in the record when we receive it.

Senator WARNER. I think it would be helpful, if our colleagues were able to compare what we are offering to the Federal Establishment and——

Mr. WRIGHT. I will say, Senator, that I am sure we are far below, not only in terms of the number of executives who get awards but also the amount of the awards.

For the most part, a 20-percent bonus, if that is the top bonus within an executive corps of an organization, is not exactly what someone will consider significant, who has been working every night and every weekend and who should be the person getting the award. It is not a major incentive to the person or their family.

I just received a note which says that, in a recent A.M.A. survey, it said that 62 percent of executives receive bonuses.

Let me give you another figure which I think is important. That is, when OPM reduced the number—the 20 percent, as you know—who could receive bonuses, only 5 percent received 20 percent. Five percent received 17 to 19 percent. An additional 15 percent received 12 to 15 percent. That is going to fairly low performance awards. I think that is something which should be looked at, not only the number of people who received bonuses but the amount.

Once a bonus is received, believe me, it is not kept a secret. It spreads throughout the entire organization.

As I mentioned in my testimony, it is not just the incentive itself. It is the expectation of the incentive. Once the other executives see that this is given, it is a major incentive. Then you have another piece of incentive called expectation which management in the executive branch can use very effectively.

It is not the percentage who receive it. It is also the percentage received.

Senator WARNER. By whatever criteria we judge and compare this program to the Fortune 500, it would be my guess that we rank at the very bottom.

Mr. WRIGHT. Yes, sir. It depends on whether you want an organization which is a high powered organization or an average performance organization. Right now, sir, we are acting like an average performance organization in terms of our performance criteria and our incentive rewards.

Senator WARNER. Thank you, Mr. Chairman.

Senator STEVENS. Thank you very much, Mr. Wright. We would appreciate it if you would would give us some guidance as to what the norm is in major corporations.

Mr. WRIGHT. We will get that information provided to you as soon as we can.

Senator STEVENS. Thank you very much.

[Mr. Wright's prepared statement, additional data on executive bonus practices in the private sector, and responses to written questions submitted by Senator Stevens follow:]

Testimony For The Record

Joseph R. Wright, Jr.
Deputy Secretary of Commerce
before
Senate Subcommittee on Civil Service
April 27, 1981

Senator Stevens and Subcommittee members, I am pleased to be here this morning to present the Department of Commerce's position regarding bonuses and pay affecting senior executives. Shortly after Mac Baldrige was designated as Secretary, he asked his staff for some data on the compensation package available to Federal executives. Without a doubt, he was somewhat surprised over the lack of compensation available to the organization's top managers and indicated his concern over our ability to attract and retain outstanding performers at the executive level. With both he and I recently coming from the private sector, we definitely appreciate the value of managerial talent to an organization and what it costs to find it and keep it.

We have repeatedly indicated that we intend to run the Department of Commerce in a businesslike manner. We have begun implementing a new MBO system in the Department which we believe will rapidly move us in that direction. Increasing productivity and finding more economic ways to achieve our goals are definite objectives of using this approach. If we truly want to achieve these changes, we need to have tools to reward our best performers as well as tools to reduce the number of non-achievers. Both the Secretary and I are in full support of the administration's goals and believe we should have some flexibility in compensating those who help us achieve them. You can be assured that we would be willing to give no bonuses if none were merited.

We strongly support the retention of the SES bonus system. Senior executives are demoralized by a combination of compensation setbacks, including bonus limitations, incentive award restrictions, and the pay cap. Career executives feel betrayed by a system which has yet to fulfill its promises. Responding to a question in a recent SES survey conducted by the Department, 70 percent of the respondents disagreed that the SES bonus revisions established by Congress and OPM are fair and reasonable and 76 percent of them indicated that their payable compensation package is insufficient. Only 52 percent of this same group responded in a similar fashion to the exact same question just prior to our implementing the SES.

Bonus limitations also serve as a disincentive. They increase the liklihood that deserving individuals might not receive a bonus. This fosters a climate of competitiveness rather than one of teamwork. A number of SES career members also have career senior executives reporting to them. They are all covered by the same bonus pool. When a set number of bonuses can be awarded for this group, it is highly unlikely that incumbents of Deputy or lower-tier positions will ever receive bonuses with the current limitations no matter how effectively they contribute to overall goals. Achievement of objectives will almost automatically -- and very reasonably -- be credited to those in charge of a program area.

The bonus system was originally established to treat Federal executives more like their private sector counterparts. Congressional and OPM bonus limitations serve to do just the opposite. A recent survey by the Executive Compensation Service of the American Management Association indicates that of 2,291 companies surveyed, 62 percent of the executives in these companies received payments under some kind of bonus or incentive plan.

The repeal of the bonus provision would be a serious mistake and severely undermine the SES. It would create an SES system governed by negative consequences -- punishment for failure with no recognition for success. We have no evidence of abuse or improper awarding of bonuses under our bonus determination process. As I indicated earlier, the Secretary and I assure you that this impropriety will not be tolerated. The bonus system is monitored very closely through a number of mechanisms.

This concludes my testimony. I am prepared to answer any questions that the Subcommittee may care to pose at this time.

THE DEPUTY SECRETARY OF COMMERCE
Washington, D.C. 20230

JUL 9 1981

Honorable Ted Stevens
Chairman, Subcommittee on Civil Service,
Post Office and General Services
United States Senate
Washington, D. C. 20510

Dear Mr. Chairman:

As part of my testimony on the SES Bonus Program before your Subcommittee on April 27, 1981, I agreed to furnish some additional data on executive bonus practices in the private sector. Enclosed are four brief reports which provide this information.

The reports summarize the findings of four recent independent studies of executive compensation practices in a large cross-section of major U. S. corporations. Included are:

Top Management Report
Thirty-first Edition 1980/1981
Executive Compensation Service
American Management Associations

Top Executive Compensation, 1980 Edition
Research Report from the Conference Board

Executive Compensation 16th Annual Study
Sibson and Company, Inc.

1981 Executive Compensation Plans and Practices
Executive Compensation Service
American Management Associations

It seems clear from the data that executive bonus practices in the private sector differ from those in the Federal Government in two significant aspects. A much higher percentage of private sector executives who are eligible for bonuses actually receive them, and the bonus payments represent a much higher percentage of base salary.

I hope you find the information useful and informative. Thank you again for the opportunity to participate and contribute to the hearings on the SES Bonus Program.

Sincerely,

Joseph R. Wright, Jr.

Enclosures

TOP MANAGEMENT REPORT
EXECUTIVE COMPENSATION SERVICE
THIRTY-FIRST EDITION 1980/1981
AMERICAN MANAGEMENT ASSOCIATIONS

General Background

The 2291 companies in the United States that supplied information for this report had gross revenues of $2.1 trillion and net earnings of $112.8 billion. Total employment of the companies was more than 24 million. The companies are in the following broad industry groupings: Manufacturing (Durable and Non-Durable Goods), Petroleum and Natural Gas, Wholesale and Retail Trade, Utilities, Construction, and Finance and Insurance. Included are 359 "Billion-Dollar" Companies.

Bonus Payments

Of the total 2291 companies supplying the information, 1399 or 61 percent reported payments under some kind of bonus or incentive plan. These payments were made to 11,323 or 62 percent of the 18,222 executive positions in these companies.

While bonus payments accounted for 20.6 percent of the compensation paid executives in the 2291 companies, they represented 37.9 percent of the salaries of those who received them. The corresponding figure in last year's Report (1979) was 38.6 percent and for the five previous years was 38.6 percent, 37.5 percent, 36.0 percent, 35.9 percent and 32.5 percent respectively.

These percentages by broad industry groupings are as follows:

Industry	Number of Companies	Per Cent Paying Bonuses	Per Cent of Total Compensation	Per Cent of Salaries of Recipients
Manufacturing --				
Durable Goods.....	829	67.0%	27.3%	37.5%
Non-Durable Goods..	500	61.8%	25.2%	33.7%
Petroleum and Natural Gas	47	48.9%	28.0%	38.8%
Wholesale and Retail Trade	136	55.2%	24.8%	33.6%
Utilities	145	23.4%	26.4%	35.9%
Construction	36	63.9%	25.7%	34.6%
Finance and Insurance	239	47.7%	25.0%	33.3%
Billion Dollar Companies	359	74.1%	31.0%	45.0%
U.S. Total	2,291	61.1%	27.5%	37.9%

For all industries combined, bonus payments to major management positions were related to salaries as follows:

Position	Percent bonus to salary
Chief Executive Officer	47.8%
Chief Operating Officer	45.3%
Executive Vice President	41.5%
Administrative Vice President	39.4%
Top Marketing and Sales Executive	35.1%
Top Manufacturing or Production Executive	33.4%
Top Financial Executive	37.8%
All Other Postions	33.0%

Salary Increases

An analysis of instances where higher salaries have been reported from year to year indicates that while some increases are to recognize promotions, the majority of them are for increased experience and improved performance. The frequency of such increases over the last five years is reflected in the following table:

	1976	1977	1978	1979	1980
PER CENT OF EXECUTIVES:					
At lower rates	3%	4%	6%	5%	5%
Remaining unchanged	16%	14%	12%	10%	6%
Receiving increases	81%	82%	82%	85%	89%
AVERAGE PER CENT INCREASE WHERE INCREASE GRANTED	12%	12%	13%	14%	13%

TOP EXECUTIVE COMPENSATION
1980 EDITION
RESEARCH REPORT FROM THE CONFERENCE BOARD
BY HARLAND FOX

General Background

This report is the nineteenth in a series of biennial Conference Board studies analyzing the compensation of top-paid executives of a large number of corporations. The major focus is on the basic elements of 1979 cash compensation: base salary and the increasingly important annual cash bonus awards. The report analyzes compensation of the five highest paid executives in each of ,153 corporations representing six major types of business: manufacturing (470 companies), retail trade (90 companies), gas and electric utilities (106 companies), commercial banks (248 companies), insurance (174 companies) and construction (65 companies).

Bonus Awards

As a rule, the base salary of those executives who receive a bonus is significantly lower than the base salary of their counterparts in companies that do not have a bonus plan. However, the bonus award more than makes up for this differential; consequently the total compensation of bonus recipients is higher than that of nonrecipients. The median 1979 annual bonus award for the group of five highest paid executives in manufacturing (48 percent of salary), construction (42) percent), and retail trade (30 percent) is higher than the median award for banking (21 percent), insurance (20 percent) and utilities (16 percent).

The size of these annual bonus awards, measured as a percentage of base salary, has increased significantly since 1971 (7 to 16 percentage points) in manufacturing, banking and insurance. The base salary on which the bonus percentage is based also has risen significantly. For example, since 1977 the base salaries of top executives increased 17 to 22 percent, depending on the type of business. By far the most common and important bonus plan is the "annual" executive bonus plan. These plans provide a year-end bonus award based essentially on that year's corporate perfor... Typically it is paid in cash as a lump sum soon after the end of the performance year.

The growth of these is quite marked, especially among the ... types of business - except for gas and utilities. The follo... shows the prevalence of these "annual" bonus plans for 1... and ...

BEST COPY AVAILABLE

Type of Business	May, 1980 Total Companies	May, 1980 Percent with Bonus Plan	May, 1970 Percent with Bonus Plan
Manufacturing..	419	90%	65%
Construction....	65	89	no data
Retail trade.....	90	81	40
Commercial banking.....	248	55	19
Insurance.....	174	52	18
Gas and electric utilities.....	106	13	6

The following table shows the median annual bonus award for the group of three highest-paid executives in each type of business.

Type of Business	Median Award, 1979 Number of Executives	Median Award, 1979 Percent of Salary	Median Award (Percent of Salary) 1977	1975	1973	1971
Manufacturing....	1,191	52%	45%	42%	40%	36%
Construction.....	151	49	41	no data	no data	no data
Retail trade.....	172	34	36	31	38	43
Insurance.....	237	21	20	16	18	15
Commercial banking	417	23	17	14	12	11

The table suggests that bonus awards measured as a percentage of salary, have increased significantly over the last 10 years. In addition, over this same period, the base salary on which the bonus percentage is based has increased significantly.

16th ANNUAL STUDY
EXECUTIVE COMPENSATION
SIBSON AND COMPANY, INC.

General Background

Since 1965 Sibson and Company has authored each year an in-depth commentary covering the latest trends in executive compensation. The firm's sixteenth Annual Management Compensation Study was conducted during the summer of 1980. The extensive survey and research data base used to portray the current executive compensation practices represents a broad cross-section of American industry. Included are 725 participating companies, representing 30 major industry groups and 65 key management positions. The comprehensive study covers pay levels and policies for all executive compensation elements including salaries, bonuses, long-term income, executive benefits and perquisites and total management compensation.

Management Bonuses

A predominance of companies provide bonus opportunities in addition to salaries for their managers as a separate component of the total cash compensation package. Survey data accumulated over the past five years has continued to show that about 80 percent of publicly held companies have some kind of bonus plan for management positions.

The bonus award level paid to the Chief Executive Officer is very important because its size sets the framework for awards for other company positions. Bonus levels as a percent of salary for Chief Executive Officers ranged from 31 percent of a $75,000 salary to 56 percent of a $350,000 salary. There is a direct relationship between the bonus percentage earned by the Chief Executive Officer and bonus percentages earned for other general management positions which include Chief Operating Officer, Group Executive and the Heads of Operating Company Units. The following chart indicates typical bonus ratios for general management positions at various salary levels and at several different Chief Executive Officer salary levels.

BONUS LEVELS FOR GENERAL MANAGEMENT POSITIONS
(Compensation In $ Thousands)

SALARY LEVEL OF POSITION	BONUS AS A PERCENT OF SALARY WHEN CHIEF EXECUTIVE OFFICER'S SALARY IS:				
	$300	$250	$200	$150	$100
$300	55%				
250	49	50%			
225	45	47			
200	42	44	45%		
175	38	39	42		
150	34	35	37	40	
125	30	31	33	36	
100	25	27	28	31	35%
80		23	24	26	31
60			20	21	25
50				18	22
40					18

SOURCE: Sibson & Company Surveys.

These figures represent an average bonus level over the past three years.

Bonus ratios for staff positions are more closely related statistically to salary and functional speciality. Bonus payment percentages for professional staff positions are highlighted by the following chart.

BONUS LEVELS FOR FUNCTIONAL MANAGEMENT POSITIONS
(Bonus as a Percent of Salary)

FUNCTIONAL POSITION SALARY LEVEL ($000)	BONUS AS A PERCENT OF SALARY					
	Marketing	Finance	Manufacturing	Legal	Engineering	Human Resources
$ 40	13%	15%	20%	13%	13%	16%
50	16	18	22	20	15	20
60	18	23	23	23	18	23
70	20	24	23	27	20	24
80	23	29	25	28	23	29
90	23	30	25	30	24	29
100	25	31	25	31	25	30
120	27	35	28	35	28	33
140	29	39	29	38	N/A	36

SOURCE: Sibson & Company Surveys.

These figures represent an average bonus level over the past three years.

Nearly four out of five companies in the 1980 survey consider personal performance as well as the business performance of the organization unit to which an individual belongs. Companies determine an overall fund to be paid, based on the business results against the goals or criteria established in the program. Then adjusted awards for each participant may be further adjusted plus or minus, depending on how well each individual has contributed to the overall business results.

1981 EXECUTIVE COMPENSATION PLANS AND PRACTICES
EXECUTIVE COMPENSATION SERVICE
AMERICAN MANAGEMENT ASSOCIATIONS

General Background

This special study of Executive Compensations Plans and Practices is based on survey replies from 439 companies. Of these, 362 have some type of plan to reward executives over and above base salary. Most of the companies having plans are in Durable goods manufacturing (164) and Non-Durable goods manufacturing (70). Based on those companies who reported their annual sales volume or revenues, the size of the companies who have plans is as follows:

Up to $25 million	91
$25 to $100 million	90
$100 to $500 million	97
$500 to $1 billion	30
Over $1 billion	54

The survey results reflect data on the number of participating companies, eligible employees, number who received bonuses, Average Salary of Bonus recipients average bonus, and representative percentage of bonus awards at specified base salary levels. These results are represented on the following chart.

BEST COPY AVAILABLE

Bonus Statistics

Company Size	$25 Million	25/100 Million	100/Million	500 Million	Over 1 Billion
Total Companies	91	90	97	30	54
Companies Providing Data	73	82	73	26	41
Eligible Employees	1265	3700	9480	3545	17,958
Bonus Recipients (No. & Percent)	1117 (88.3%)	3279 (88.6%)	8342 (88%)	2310 (65%)	10,056) (56%)
Average Salary	$35,616	$40,002	$45,900	$57,200	$60,200
Average Bonus	$18,318	$18,820	$12,800	$15,300	$19,700
Representative Bonus Percentages at Various Base Salaries	$25,00 (17.2)	$25,000 (13.8)	$25,000 (19.0)	$25,000 (16.8)	$25,000 (22.9)
	$50,000 (26.4)	$50,000 (26.5)	$50,000 (30.0)	$50,000 (27.1)	$50,000 (23.6)
	$100,000 (28.8)	$100,000 (39.7)	$100,000 (40.0)	$100,000 (50.5)	$100,000 (38.7)
			$150,000 (42.0)	$150,000 (45.0)	$150,000 (47.3)
			$200,000 (43.0)	$200,000 (45.2)	$200,000 (57.8)
				$250,000 (36.5)	$250,000 (61.3)

The data show that most companies have a bonus plan to reward executives and that a considerable percentage of eligible executives receive bonuses.

THE DEPUTY SECRETARY OF COMMERCE
Washington, D.C. 20230

JUN 2 1981

Honorable Ted Stevens
Chairman, Subcommittee on Civil Service,
Post Office, and General Services
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

I am pleased to respond to the two additional questions on the SES Bonus Program requested in your recent letter. The enclosed responses are submitted for completion of the hearing record.

Thank you for the opportunity to participate in the hearings on the SES Bonus Program.

Sincerely,

Joseph R. Wright, Jr.

Enclosure

RESPONSES FOR THE HEARING RECORD

April 27, 1981 - SES Bonus Program

1. Do you feel that 50 percent eligibility is too high or too low a figure for Federal bonuses?

   The bonus system was originally established to treat Federal executives more like their private sector counterparts. The 50 percent eligibility provides the appropriate ratio for accomplishing this. A recent survey by the Executive Compensation Service of the American Management Association indicates that of 2,291 companies surveyed, 62 percent of the executives in these companies received payments under some kind of bonus or incentive plan. The 50 percent eligibility provides the needed flexibility for rewarding our best performers and compensating those who help us achieve our objectives. It deserves a fair chance. To limit eligibility to less than 50 percent is to increase the likelihood that deserving individuals might not get bonuses. You can be assured that we would give no bonuses if none were merited.

2. What do you think about devising a system whereby if a certain program actually saves money, a percentage of the savings would be used to award bonuses for all the employees of the program, managers and administrative help?

   This concept has merit and would provide a basis for bonuses due to the relationship between savings and rewards. This is similar to awards for group accomplishments under the present incentive awards program. The SES and Merit Pay systems already relate individual rewards to achievement of organizational objectives, including cost avoidance and savings. The extension of this approach to all contributing employees would be appropriate.

Senator STEVENS. Mr. Post, I understand that you have a deadline. Would you like to testify at this time?

Mr. POST. Yes, sir. I would appreciate the opportunity.

Senator STEVENS. This is Mr. John Post, the executive director of the Business Roundtable.

TESTIMONY OF JOHN POST, EXECUTIVE DIRECTOR, THE BUSINESS ROUNDTABLE, ACCOMPANIED BY WILLIAM S. JOHNSON, DIRECTOR, GOVERNMENT PROGRAMS, INTERNATIONAL BUSINESS MACHINES CORP.

Mr. POST. Thank you very much, Mr. Chairman, for permitting me to break into the schedule. I am pleased to accept your invitation to appear here.

It was only on Friday that we finally flanged up my appearance. I do not have a written statement.

It is also rather appropriate that I follow Mr. Wright because, you will find, our experiences are somewhat parallel, and our views are identical with regard to the incentive bonus plan.

The Business Roundtable, as you know, is an organization of about 200 chief executive officers from the Fortune 500. We have been very interested in supporting the civil service reform program, particularly the provisions regarding incentive bonuses.

As you might expect, the chief executive officers are highly interested in developing and maintaining superior levels of productivity in all their organizations. They share that concern with the way our Government operates.

We supported the civil service reform program and presented a considerable amount of evidence in support of the proposals regarding incentive bonuses.

We believe that incentives are essential to attract, motivate, and retain high-level talent. We think it is especially important in the Government at this time because of the ceilings which you have imposed on yourselves regarding salaries and the high degree of compression.

I think that the alternative is a deadly leveling which would aggravate the present situation. I should interject that the bonus system itself will not solve your problems. It is absolutely essential that you come to grips with the salary situation itself.

I realize that, under the present circumstances, the administration and the Congress do not want to deal with it, but at some point the compression and level of salaries must be grappled with.

I speak from personal experience too, as a former management consultant which was prior to my experience with the Business Roundtable, and from my experience in industry where I was responsible for developing compensation plans.

In answer to the question of Senator Warner, I would say this. Our experience demonstrates that the difference between many successful and unsuccessful companies is somewhat related to whether or not they have incentive compensation plans. There is great competition in the private world for executives, and they move around too, based upon the kinds of compensation plan which are offered.

We have an advantage in the private sector because we have other kinds of incentive plans which Mr. Wright referred to, such

as stock options. They would reward an executive as the stockholders are rewarded with an increase in the value of his stock.

It is, therefore, more important that you pay greater attention to the kinds of salary award and merit bonus awards which are available to the Government.

I also want to comment upon the reference to the feelings of some employees who did not share in the awards and, therefore, feel dissatisfied. You are changing an entire system of management in this Government. It is important for us to take time. Even those who will not share in it immediately will have to learn, we hope, that this is a way of managing so that rewards will be given to those who are recognized for their superior performance.

I would like to give you one personal experience from my previous work. I worked for a company which did not have an incentive system. I was in charge of compensation plans and discussed this with the chief executive. He mentioned a number of the points which were made here about the discretion which is required, the discrimination among employees, and the difficulty of administering the program.

Therefore, we withheld installing a plan, but our competitors began to install such plans. It did not take long for us to try to meet their positions.

In due course, if you are competing for high-level talent in this country, it seems to me that it is essential that you use all of the tools which are available to Government.

We think that the Government's plan is modest. I am not prepared to compare how it operated within the Government this year, because we have not followed it that closely. Our view is that this is a long-range plan which is necessary to improve the efficiency of the Government.

We would be glad to help in any way in terms of information or advice. It seems to me that you have made a start. You ought to move on it and keep going and recognize that this will make a great deal of difference in the way the Government operates.

I have with me Mr. Johnson, who is with IBM. As you know, in the Roundtable we operate through task forces. IBM was under Frank Cary and, now, is under John Opal. They have been the leaders in dealing with the whole subject of Government regulation and Government operations. I am sure that with their help we can provide whatever information you want.

Senator STEVENS. Thank you.

Do you have any comments, Mr. Johnson?

Mr. JOHNSON. My experience in working with the Civil Service Reform Act and with the Office of Personnel Management, as a member of IBM with more than 30 years in personnel, is very simply this. I have been impressed—I think that we have all been impressed—with the professionalism and the integrity of the Government executives. There is no question in my mind that, given time, sufficient training, and support, all aspects of the Civil Service Reform Act can be implemented successfully, including the very difficult Senior Executive Service bonus performance award plan.

I would urge that time, sufficient management training, and attention in each of the departments and agencies for the implementation of the program be given. We are confident that it is not

only necessary, but it certainly can be done. I think it can be done very well.

Senator STEVENS. Thank you.

I think it is unfortunate that a test of the system has occurred during a period when we have had excessive pay caps. It makes the system incomplete; that is, the awarding of bonuses during a time when there is a pay cap. That is my opinion.

Senator Pryor?

Senator PRYOR. I wonder whether either of you gentlemen would have any suggestions to us on the Hill about how we might better structure the system for making the awards. Are we doing the best job you think we could be doing, or is there a better system which we could employ?

Mr. POST. Senator, it would be wrong for me to try and answer that question directly because I am not that familiar with the way in which the system is operated within the administration.

We have been impressed by the way Scotty Campbell tried to put together some ideas. From what I heard here this morning, I am impressed by the seriousness with which this has been addressed.

One thing which I hope you will not change is the high degree of decentralization within the Government. This is a big Government. It is important that we not try to centralize at some pinnacle the determinations of the various Boards.

One of the most important factors will be the responsibility levied on those who are responsible for carrying out their duties, yet by the oversight of OPM, and perhaps the White House and GAO, it is possible to arrive at some understanding among the various parts of the Government as to how they are to operate.

Mr. JOHNSON. May I add?

Mr. POST. Certainly.

Mr. JOHNSON. Senator, my experience in my own company—and I think in others—is that any successful management system like this requires the involvement of the top executives, the very senior people. I would urge and support OPM, and anyone else, in any kind of guidance or requirements which are involved at the very top level of that department or agency. I think that is critical, even up to the point of having to approve, sign off, or look at each one of the awards, at least the major ones. That is the only way our system works well—by having that top involvement.

Senator PRYOR. I have a perception that those who may receive a bonus think that the awards are based on merit, and thcse who do not receive them think the awards are based on politics. I do not know how we can dispel this conflict or disparity.

Mr. POST. You may never do it, Senator. As I said, this is a change in the whole system of management. If you go to any other places of government, outside perhaps of the Federal Government, where there is an insistence that all salaries be the same—as I recall, in the teaching profession there was for a long time resistance to any reward for different levels of performance.

I think that is one of the problems which we faced in our company when our chief executive was concerned about the problems of administration, but in due course you have to recognize that you are likewise discriminating against those who do provide a high level of performance. Therefore, you have to bite the bullet

and say that for the benefit of the stockholders and the company, we have to go ahead and do this and take our chances. Those who do not, do not get it and have to leave.

There will be some cases of injustice, but I do not think we can let that militate against getting the whole job done and bringing in and keeping the very best people.

It seems to me that the Government has an enormous problem right now of attracting, motivating, and keeping its top level because not only do you have the salary problem but you have all of the ethics in Government problems, conflicts of interest, et cetera. Somewhere along the line, I hope a committee like this will take a look at that.

Senator PRYOR. I do appreciate very much the two of you taking your time to come and help us in our deliberations.

Thank you, Mr. Chairman.

Senator STEVENS. Senator Warner?

Senator WARNER. I have no questions.

Senator STEVENS. Thank you very much, gentlemen. We appreciate your courtesy and your interest in this system.

[Responses by Mr. Post to written questions submitted by Senator Stevens:]

RESPONSES TO WRITTEN QUESTIONS SUBMITTED BY SENATOR STEVENS

Question 1. Do companies that you are familiar with make a practice of awarding bonuses to their better employees?

Answer. Yes.

Question 2. Are bonuses only awarded to executives, or do they often filter down the ranks?

Answer. Usually awarded only to executives. In a few companies bonuses may be available to upper level management below the executive level.

Question 3. What is the typical percentage of company employees or company executives who receive annual bonuses?

Answer. Can't give you a precise answer. Suggest you ask a firm such as McKinsey and Company which has broad experience in designing executive compensation plans.

Question 4. Do you feel that the bonus program can be successful in the federal government?

Answer. Yes.

Question 5. From your knowledge of the private sector, is there a method used to determine which employees get the bonuses?

Answer. There is one method. Here again I suggest you consult McKinsey.

Senator STEVENS. We now have Dr. Donald Devine, the Director of the Office of Personnel Management.

TESTIMONY OF DONALD J. DEVINE, DIRECTOR, OFFICE OF PERSONNEL MANAGEMENT

Mr. DEVINE. Good morning, Senator. I do not want to be too repetitive since much of what I have to say has already been said. I would, however, like to submit a statement for the record, make a couple of points and then answer any questions that you may have.

Senator STEVENS. Without objection, your full written statement will be inserted into the hearing record at the conclusion of your testimony.

Mr. DEVINE. I think, as you have heard from the Secretaries of HHS and Commerce, that the bonus system is one of the few tangible tools to reward excellent performance which is available to Government managers.

The existence of the bonus system is, of course, directed by the law. However, the law does not say very much about how the system shall operate. It does say which executives are to be considered; that is, career members of the Senior Executive Service. It limits the number of awards and the amount. The statute lists which factors shall be considered in making awards: improvements in efficiency, productivity, and quality of work; cost efficiency and timeliness; these qualities as they are performed by employees under the supervision of the executive; and meeting affirmative action goals. Beyond that, OPM has issued guidance on the number of awards. After Congress acted last July to reduce the percentage eligible from 50- to 25-percent of SES positions, OPM, at the suggestion of members of this committee, recommended that awards be limited to no more than 20 percent of career eligibles. OPM also issued guidance on the amounts: the legal maximum of 20 percent was limited to no more than 5 percent of those receiving bonuses; awards in the 17- to 20-percent range to no more than 10 percent, and in the 12- to 20-percent range to no more than 25 percent.

Very importantly, OPM also required agencies to publish advance notice in the Federal Register of the schedule for awarding bonuses. My opinion is that Congress acted wisely in not eliminating the bonuses last year. Whether 25 percent is the precise limit at which the bonuses should be set, I am not sure. But in the face of some of the problems that Congress saw, it tried to save the program, and I am very happy that it did so. Since there are so few management tools and so few rewards for Government executives, given the pay cap, the bonuses are a critical part of the management and employee relations program.

As far as review is concerned, the General Accounting Office has been studying this and you will hear from them next. At OPM we have been looking at this very intensively on the specific case level. There are some problems of which we are aware in awarding bonuses and we are dealing with the agencies involved. It is interesting to recognize that the problems tend to be in the small agencies that do not have as many resources as do the larger ones. We are focusing our review and giving special guidance to the small agencies.

One of the issues that has been mentioned regarding the oversight question concerns the Performance Review Board. There have been some objections—and under the standards of law they are valid objections—that an individual should not be a judge in his or her own case. I think it would be unwise, however, to pass a general rule which said that nobody who served on a Performance Review Board could get a bonus. The reason is obvious: you would not be able to get anyone to serve on the Boards. Certainly you would not have the most capable members.

Many agencies have procedures which insulate or try to give some arms-length relationship to Board members under consideration for awards. For example, excusing from the room when they are considered; or more importantly having separate panels set up to review awards which concern individuals serving on a Performance Review Board.

At OPM we set up last time a system whereby we had on the PRB two people from outside of OPM and two people who had

received the Presidential Rank Awards. We have regulations in OPM that prohibit one individual from receiving a bonus and a rank award. I have just communicated with the department and agency heads and told them that we do not expect them to give both a rank award and a bonus in the same calendar year to the same person. The people who get the Presidential Rank Awards are certainly the highest qualified executives, and since they are not eligible to receive bonuses, they are not judges in their own case.

I also think we should use more noncareer senior executives and Presidential appointees on these boards because they are not eligible to receive bonuses either.

I think if we take these kinds of approaches, then we can minimize the problems that may occur. As it is now, it does not look like there are a large number of problem cases. The secret, as the gentleman from the Business Roundtable said, and it is absolutely critical, is that the top management has to take an individual interest in the award of bonuses. He also mentioned this to me in a conversation that we had a few weeks ago. We are very seriously considering a requirement that the agency heads or other appropriate officials individually sign off on the awards.

In the past, the agency head could sign one piece of paper to award a couple of hundred bonuses. I think that when the top management person simply signs one piece of paper, he or she does not realize the importance of the individual decisions that have been made. It was mentioned in testimony before that much of the controversy which surrounds the bonuses concerns what are called horror stories. To help limit these situations, we want to make sure that every bonus paid has received individual attention from top management.

I am not ready fully to commit myself to any specific proposal right now because there may be problems, such as the volume of awards requiring attention. I spend a good part of my day signing papers and I know other agency and department heads do the same, so I want to be sure that we are not going to burden them. However, I do intend to take some action which causes the heads of agencies to recognize more fully that they are making an important decision with each bonus determination.

There have been problems. However, OPM has the oversight authority to make the system work. We are looking at some cases individually and we are resolving them. The system has its flaws. But, I think that it is very important to give the system some time to work.

We have over 6,000 career executives in the Senior Executive Service. They are spread across hundreds of departments and agencies. There is no way that we can avoid all mistakes.

When business undertakes a new program it expects a certain percentage of problems the first year, somewhat fewer the next year, and so forth as the program proceeds. We have to expect that there will be problems, but we want to minimize them and have oversight support procedures that will guarantee that there will be as few as possible.

That is the end of my opening statement. I will be happy to answer any questions.

Senator STEVENS. Thank you very much, Dr. Devine. Senator Warner?

Senator WARNER. Based on my own experience when I was Secretary of the Navy for some 5 years, I agree with you on the involvement of the top man. I personally did that. I am not here to give accolades to myself but I did that. As a result I received tenfold in return, not only in performance but morale throughout the department.

It seems to me, Mr. Chairman, at the conclusion of these hearings, and assuming that we reach a consensus, that it might be well if we ask the President to raise this to a Cabinet level agenda item and that he in turn ask of his Cabinet officers to begin to take a personal involvement in this. Do you have a comment on that?

Mr. DEVINE. Yes. I might say that there was a Cabinet meeting on this subject which really came about because these hearings were coming up. We wanted to talk about the administration's position——

Senator WARNER. In which administration did the meeting take place?

Mr. DEVINE. In this administration. It was last week, sir. The President, of course, was still recuperating, but the Vice President chaired the Cabinet meeting. We discussed the bonus system, and there was a consensus that bonuses are important tools to be used in administering the Government.

The administration's commitment is demonstrated by the fact that two of the departments were represented today and two others submitted testimony. There was some internal discussion within the administration, because of the horror stories, to eliminate the bonuses or talk about legislation. But, after review, and it took a substantial amount of time at the Cabinet meeting, we got very strong support. I think the statements by the Cabinet members who were here today, or sent representatives, are indicative of that support.

Senator WARNER. Thank you, Mr. Chairman.

Senator STEVENS. Thank you very much, Dr. Devine. I have a series of questions to fill out our record and get us some information in the event that the matter comes up on the floor in terms of how many executives there are now and what percentage actually receive bonuses, and how much money is involved in other things. I would like to submit those to you for the record and ask you to respond to them.

Mr. DEVINE. I would be very happy to.

Senator STEVENS. We appreciate the fact that this matter was taken up in the Cabinet. We will follow up on Senator Warner's suggestion and suggest to the President that a personal request from him to individual Cabinet officers might be very appropriate. I am sure, Senator Warner, that that will be followed through.

Senator WARNER. It is a very simple thing. I had a policy where I made every one of these awards myself.

Sometimes they were delayed simply because I had to get out to the geographical area for the Department of the Navy, to the west coast or wherever it may have been, but those basic involvement structures can help the program.

Senator STEVENS. As I say, I intend to do something to get them involved in the process and we can do that through regulations.

Thank you very much, Dr. Devine. We may get around to thinking later on this year or early next year as to modifications to this system. We will be in consultation with you before such a bill would be introduced. Because of the schedule of the Senate, that would not be possible until the President's economic program is reviewed so there is no reason to start worrying about it yet.

Without objection, my series of written questions and your answers will be submitted for the hearing record.

[Dr. Devine's prepared statement and answers to written questions submitted by Senator Stevens follow:]

PREPARED STATEMENT OF DR. DONALD J. DEVINE

Mr. Chairman and Members of the Subcommittee: I am pleased to have the opportunity to appear before this Subcommittee in order to discuss a highly important new feature in the organization of our government: performance awards for civil servants in the Senior Executive Service.

There is, of course, a great deal of Congressional interest in the entire Senior Executive Service and in the bonus awards in particular. This has also been a topic of much evaluation by the Office of Personnel Management.

One of the most promising features of the Civil Service Reform Act of 1978 is the SES performance award—or bonus—system. In the words of the governing statute, the purpose of the awards is "to encourage excellence in performance by career employees." The bonuses are awarded only to those employees whose performance is rated at the fully successful level or above.

The bonus system is one of the few mechanisms available for rewarding the best managers in government. The ability tangibly to recognize outstanding performance is necessary and vital to improving the management of Federal programs. If we are to have fewer government employees, we need to encourage the best efforts from those on whom we continue to depend.

The Civil Service Reform Act of 1978 leaves broad discretion to the agencies in granting the bonuses. There are no statutory criteria setting forth the basis on which bonuses are awarded other than the provision that they are authorized "to encourage excellence in performance." The section of the statute concerning performance awards specifies which executives are eligible to be considered; it sets limits on the number and amounts of bonus payments; and, it establishes that payments are to be based on the recommendations of Performance Review Boards. The law is silent in all other respects, however, about the conditions for payment of bonuses.

The Reform Act is considerably more precise, by contrast, about the factors to be taken into account in appraising the performance of senior executives. It establishes several specific criteria against which to measure both the individual and organizational performance of executives. The factors to be considered in evaluating performance include:

Improvements in efficiency, productivity, and quality of work or service, including any significant reduction in paper work;

Cost efficiency and timeliness;

Other indicators of the effectiveness, productivity, and performance quality of the employees for whom the senior executive is responsible; and

Meeting affirmative action goals and achievement of equal employment opportunity requirements.

Subsequent guidance to agencies from the Office of Personnel Management emphasized that bonuses should be based solely on performance and that the size of awards should correspond to the quality of performance by executives. But, keeping in mind what appeared to be the clear legislative intent of affording broad discretion to agencies in the administration of performance awards, OPM did not establish by regulation any further restrictive conditions on the basis for approving bonuses. After the Congress acted last July to reduce the percentage of executives who could receive bonuses from 50 to 25 percent, OPM did issue additional guidance further limiting the number and dollar amounts of awards.

The guidance issued by OPM requested agencies to adhere to an even lower limit, 20 percent of eligible career executives. That had the effect of not only lowering the percentage ceiling, but of reducing the computational base from the number of SES

positions to the number of positions actually occupied by career executives whose performance had been appraised. The guidance on dollar amounts provided that:

Bonuses at the legal maximum of 20 percent should be limited to no more than five percent of those receiving bonuses;

Bonus payments ranging from 17 to 20 percent should, in total, be limited to no more than 10 percent of those receiving bonuses; and

Bonuses of 12 to 20 percent should, in total, be limited to no more than 25 percent of those receiving bonuses.

In addition to placing ceilings on the dollar amounts of bonus awards, OPM's guidance also provided for agencies to publish an advance notice in the Federal Register of their schedule for awarding bonuses.

Against this backdrop, several observations are in order. Most Federal executives are professional and have a sense of personal integrity that has made possible the stability and continuity of government operations on which we, as a people, have heavily relied. It is doubtful that principles and integrity are cast aside or become less important when a Federal executive, whether career or noncareer, assumes the responsibilities of a member of a Performance Review Board.

I have heard accounts of the way in which Performance Review Boards have approached their deliberations, frequently in sessions extending over many days and into long evening hours. The most reasonable, overall judgment I can offer is that Performance Review Boards have attempted to do their work well.

Having said this, I am fully aware that individual performance awards in certain agencies have been the subject of critical media accounts and adverse public reaction. I understand that Congressional scrutiny of the actions of the first several agencies to make bonus payments gave rise to the legislative revision of last July reducing the number of bonuses that could be awarded. At one point, as you will recall, the question of whether the authorization for SES bonuses would be continued in any form hung in the balance. I think the Congress acted wisely in not eliminating SES performance awards and in continuing to authorize payments for excellence in performance by career executives.

Now that the first round of bonus payments has been completed in most agencies, we have an opportunity to determine in a concrete nonspeculative way, how the bonus provisions have actually operated. The General Accounting Office has had studies underway for sometime. I have been looking at specific cases and have begun, in OPM, through our Executive Personnel and Agency Compliance and Evaluation units, a series of in-depth evaluation reviews of SES operations at several agencies. These studies and reviews will permit us to capitalize on what agencies have learned from their own experience to date, as well as to pinpoint weaknesses and areas requiring additional guidance or regulations.

Among the issues I am having addressed is that of bonus awards to members of Performance Review Boards. This is a perplexing issue. When Performance Review Boards recommend bonuses for members of the Board, that is commonly perceived as not unlike a Board of Directors voting benefits for itself. I fully understand such a reaction.

The functions spelled out in law for Performance Review Boards are such that they result in the most able, experienced and competent senior executives in an agency being named as PRB members. I think it would be counter productive, to say the least, for senior executives of that caliber to be ruled out of consideration for bonuses solely by virtue of their designation.

Many questions and comments have been directed to us on this matter. The questions we are aware of are not in the nature of allegations of actual impropriety. Rather, the general issue they pose is the potential for, or possible appearance of, impropriety. Some agencies have established rather elaborate procedures for insulating Performance Review Board members from acting on, or from knowledge of, bonus determinations for themselves. There are special PRB panels in some agencies, for example, composed of members not themselves eligible for bonuses, such as Presidential Rank Award winners, who make recommendations on bonus awards for executives who served on PRB's. In other agencies, bonus recommendations for PRB members at lower echelons are made by an independent PRB at the highest level of authority in the agency. When the actions taken are reviewed in the context of procedures such as these, there is greater confidence in the propriety of the decisions made. Possibly, the answer to what I see as a dilemma will be found in approaches of that type. Or, perhaps, more noncareer employees, who are not eligible for awards and have no conflict of interest, should be involved on PRB's.

During the months immediately ahead, we will concentrate attention on all aspects of SES operations. We continue to engage in an intensive review and evaluation effort. Whether the wide discretion provided to agencies by the Civil Service Reform Act and OPM guidance thereunder should continue will be carefully

reassessed. If our reviews, Congressional hearings, General Accounting Office findings, and other sources of information show shortcomings and problems, we will act accordingly and adopt additional controls and regulatory safeguards. Among the changes I am considering is a requirement that bonus authorizations be individually signed by the agency head or other high level of authority appropriate to the agency. This would illuminate the significance and importance of each individual bonus determination. The procedures followed need to make clear that the decisions are important, related to individual achievement, and not approached on a group basis.

I recognize that the bonus system has not operated without flaw. As is appropriate, the Congress will seriously review whether SES bonuses should continue. I remain hopeful, however, that the Congress will grant us time to modify the bonus system in order to increase public confidence in it. We should not eliminate too soon one of the few tools for management to encourage greater public sector productivity and for employees to obtain rewards for superior performance. If the system is to survive, now is the time for supporters of the performance awards vigorously to defend the system.

I urge the Congress to observe closely the next round of bonuses in order to evaluate the system based upon the improvements we intend to make in it. I think we have a good system. All that can be requested fairly of the Congress is that the system be given an opportunity to work.

This concludes my opening remarks. I am prepared to answer any questions which the Subcommittee may care to pose at this time.

RESPONSES TO WRITTEN QUESTIONS SUBMITTED BY SENATOR STEVENS

Question 1. Approximately how many career executives are there in the Senior Executive Service?

Answer. The number is approximately 6,200 as of June 30, 1981.

Question 2. Approximately what percentage of the senior executives actually received bonuses last year?

Answer. Our records show that a total of 1,130 persons received performance awards in calendar year 1980; 4,707 career executives were considered basically eligible for bonuses. That constitutes about 24 percent of those eligible receiving bonuses; however, three agencies (NASA, MSPB, and SBA) paid bonuses before the changes in law and OPM guidance which reduced the allowable percentages. In addition, 359 bonus awards were paid between January 1 and March 31 of this year.

Question 3. Approximately how much money does that involve?

Answer. Total outlays reported to our information system for both calendar year 1980 and the first quarter of 1981 amount to about $7.4 million.

Question 4. Do you have any idea what the cost is to the Government for the high number of individuals who retire at the earliest age possible, plus the costs for retraining others to assume their tasks?

Answer. Under the Civil Service Retirement System, there are a number of different provisions under which an employee may retire. An employee with 30 years of service may retire at age 55; an employee with 20 years of service may retire at age 60; and an employee with 5 years of service may retire at age 62. Both age and service must be met at the time of separation.

Recently, the average optional retiree has been 60.7 years of age, with 30.1 years of service. However, employees at the pay ceiling ($50,112.50) have retired in large numbers as soon as they have become eligible. During the twelve-month period ending August 1980, on the average, 95 percent of employees at the pay cap who were also in the age group 55–59 retired, compared to 67 percent of all employees in the same age group.

No estimates on the costs of such retirements have been compiled at this time. Whenever additional experience in the future provides the basis for valid estimates, those estimates will be made available.

OPM recently surveyed executives who left the Federal service between July 13, 1979, when the Senior Executive Service came into existence, and September 30, 1980, to determine why executives left. A previous survey was done for those who left between 1978 and 1979. The "Possibility of a continued ceiling on executive salaries" was cited as the main reason for executives leaving the Federal service. In fact, it was an even more important reason in the second survey than the first. The pay ceiling was cited by 51 percent of the respondents, whereas 65 percent cited it in the 1979–80 survey. The next most popular reason for leaving was to "Take advantage of cost-of-living retirement increases" (46 percent overall, but 58 percent among those actually retiring). The survey also asked executives what changes in the pay or retirement system would have induced them to stay in Government.

The most cited reason was "Full pay comparability with industry" (64 percent). The sample group included not only those executives who retired but also those who resigned during the test period.

No information has been compiled on the costs of retraining others to assume the tasks of employees who may retire early. Some employees may never be replaced, tasks are divided among remaining employees, employees may be promoted to fill a vacant position, or a new employee may be hired. Due to the variety of different possibilities as well as the circumstances under which training normally occurs, no uniform information has been available on retraining.

Question 5. Do you feel that a vibrant bonus program will help to retain the now-retired senior executives?

Answer. I believe that the bonus system can and should be made to serve as a valuable component of the SES program. We look to the bonus system to be one avenue of incentive for excellence in executive performance. In terms of meeting the statutory objectives for the SES, bonuses are important in establishing "linkage" between the performance and the compensation of career executives.

It also appears that a fully functioning bonus program would help to motivate executives toward remaining in their jobs, as well as serving as an incentive toward superior performance for those who do remain. In the survey of executives who left the Federal service during the period July 1979 to September 1980, about half of the executives responding who had left said that assurance that bonuses and rank awards would be paid for excellent performance would have been a factor in inducing them to stay with the Government.

Question 6. Another problem experienced during the implementation of the bonus program was the feeling that these bonuses were being used to circumvent the pay cap. I think the feeling up here was that 50 percent were getting the bonus one year and the other 50 percent would get a bonus the following year. Now, I understand that the Performance Review Boards are to make the final judgments on who gets the awards and who doesn't. I don't believe that there is any requirement that the performance appraisal be used as the sole factor in determining who gets an award. How would you feel about requiring that the judgment be based solely upon one's performance appraisal and ratings?

Answer. In their considerations leading to recommendations on SES bonuses, PRB's should take into account the executives' performance appraisals as one important factor. There are other factors which may be appropriate to consider, such as the performance of the organization in which the executive works, for if we are to achieve increased effectiveness and economy in Government operations, we need to look at organizational as well as individual performance. Another factor which may have a place in the process is the difficulty of the executive's job, which may be reflected in the performance appraisal itself.

Question 7. Finally, how do you feel about limiting the number of awards per each ES level? In other words, maybe limit the number of executives within each ES category to 25 percent of that category so that not only the top executives get the bonuses?

Answer. Although the incidence of bonuses for executives is greater at the higher ES pay rates, we are reluctant to impose forced distributions on these awards. To do so would unavoidably cause some inequities in the payment of such awards. A number of reasons exist for the emphasis on executives at the higher pay rates, which cannot be dismissed as invalid. Among these is the basic concept of personal rank in the SES based on such factors as the individual's qualifications, achievements, past earnings record, etc.; this results in the known high achievers having pay set at the higher levels. Another important factor is that most members of the SES are those who converted from equivalent levels in July 1979 when SES was established; the large majority were converted at ES-4 or higher. Pay rates for newer appointments have been more diversified, with many of those appointments at the lower pay rates reflecting shorter experience at executive levels. Finally, because of the known achievements of executives at the higher rates, and higher expectations for them, those executives are being assigned and are meeting greater challenges.

It is premature to try to enforce a specific distribution of bonus awards through the ES levels. As the lower ES levels become populated through new entries, we will have more regular distribution of executives at all ES pay levels; and this should lead to a corresponding realignment of bonuses.

Senator STEVENS. Now the Acting Comptroller General, Milton Socolar.

TESTIMONY OF MILTON J. SOCOLAR, ACTING COMPTROLLER GENERAL, GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY CLIFFORD I. GOULD, DIRECTOR, FEDERAL PERSONNEL AND COMPENSATION DIVISION, AND ROBERT SHELTON, DEPUTY ASSOCIATE DIRECTOR, FEDERAL PERSONNEL AND COMPENSATION DIVISION

Mr. SOCOLAR. I have a statement. We have been doing a fair amount of work in monitoring the implementation of the senior executive bonus system. I would like to introduce my colleagues who are responsible for much of the work we have done.

On my left is Clifford Gould, the Director of our Federal Personnel and Compensation Division. On my right is Robert Shelton, the Deputy Associate Director of the same division.

As everyone expected, the SES has received close public scrutiny. Questions have been raised about how viable the program is. It is too early in my judgment to predict success or failure accurately.

Before I get into a more detailed discussion of our work, there is one overriding issue, which in my opinion is the key to the success or failure of SES, and that is executive pay compression.

There are about 34,000 Federal employees affected by the statutory pay limitation including virtually all members of the SES.

Retirement for employees at the pay ceiling has increased dramatically—from 17.6 percent in March 1978 to an astonishing 57.1 percent in March 1980. The increase in the retirement rate for career employees at the pay ceiling between the ages of 55 and 59 is even greater—from 15.5 percent in March 1978 to 74.6 percent in March 1980.

With regard to SES bonuses, much has been said about the possibility that they have been used to circumvent the ceiling on executive pay. If SES bonuses have been used as a secondary compensation system for SES members and have not been used solely to reward performance, this practice is somewhat understandable when one considers that virtually all SES members receive the same salary even though there are six SES pay levels.

Given the fact that top level SES members generally have the most responsible and difficult jobs at no extra salary, it is unrealistic to expect that there will not be a tendency on the part of some to use bonuses to recognize these differences. As we have said many times before, the best way to alleviate this tendency is to allow executive pay increases which will bring about appropriate differentials among SES pay levels.

We believe it is still too early to determine how well agency SES performance appraisal systems are working, or how valid, fair, and objective they are for making pay and other personnel decisions. Experience with private sector pay-for-performance, objective-oriented systems indicates it generally takes several years, or previous experience, to implement effective appraisal processes. Most agencies have not had this time or experience. It is not too early, however, to point out some problems and concerns.

Testing is normally needed before a system begins to operate smoothly and reliably. Few agencies had the opportunity to pretest. These first few years will be experimental. Our work has already revealed some of the difficulties agencies can expect to encounter.

This is not to say that agencies have not tried to implement good systems. We believe most are taking the challenge seriously. Nevertheless, agencies and OPM will have to take a number of corrective actions before incipient problems become too difficult to overcome. Our work has shown that many procedures, which experts agree should be employed, were not used or were only minimally used when implementing SES performance appraisal systems.

For example, most agencies did not test their systems before implementing them, had not established specific evaluation plans, and had not adequately trained users of the system.

Despite these concerns, SES executives who responded to a GAO questionnaire appeared to be generally optimistic about the future of the SES performance appraisal process. At least a majority of the executives supported their agency's performance appraisal system. About 60 percent were receptive to having a results-oriented performance appraisal system linked to a rewards process.

On the other hand, about 38 percent of the SES executives who responded to our questionnaire were indifferent to, against, or had no opinion about their agency's performance appraisal system. In other words, they were unwilling to say that they supported it. About one-third of the total SES respondents did not think that setting objectives and receiving performance feedback would improve performance and 36 percent did not think bonuses and rank awards were likely to contribute to improved performance.

Based on questionnaire comments written by SES executives, their reasons for not fully supporting their agency's performance appraisal system include these:

They fail to see value in the appraisal process and consequently feel it is a distraction forced on them, making their jobs more difficult.

They believe that their specific performance appraisal system is flawed.

They believe that their system cannot work in a bureaucratic environment or will require them to step up bureaucratic gamesmanship.

They believe that their system was imposed as a disciplinary measure, with the underlying implication that senior executives are generally underworked, overpaid, and incompetent.

They believe that external politics will prevent delivery of a bonus program to the extent originally promised to the SES as an inducement to join, and they believe that internal politics, favoritism, and pay compression problems will destroy the rating process.

While we do not believe one should draw conclusions from this preliminary information, we do think it signals areas for agency, OPM, and congressional concern. Because these untested systems are being used for decisions about retention, bonuses, and other personnel actions, there is a critical need to develop and implement formal evaluation methods to insure the validity, and objectivity of agency practices.

In October 1979, OPM provided agencies with guidance on the payment of bonuses which reiterated the limitations and other provisions of the Reform Act and provided suggestions on establishing and administering SES bonus payment programs.

The first bonuses under this system were paid in 1980 by the Small Business Administration, the National Aeronautics and Space Administration, and the Merit Systems Protection Board. Concerned about the number and amount of these awards, the Congress, in a supplemental appropriations act, reduced the number of SES members who could receive awards from 50 percent to 25 percent.

On July 21, 1980, OPM further limited bonuses—unless OPM approval was obtained—to 20 percent of the career executives. This limitation was a response to strong congressional concern that the 25 percent limit be viewed as a ceiling, not the norm.

OPM also limited the size of bonuses—no more than 5 percent of bonuses could be 20 percent of salary. In total, no more than 10 percent could be 17 to 20 percent of salary, and in total, no more than 25 percent could be 12 to 20 percent of salary. OPM also suggested that although career executives are eligible for both bonus and rank awards, agencies should generally avoid giving multiple awards to an individual SES member in any one year.

OPM is gathering statistics on the SES program, including data on financial awards. We analyzed OPM data available at the time of our review, which covered about 5,000 executives, or 70 percent, of the SES.

According to OPM data, awards were distributed among the six SES levels as follows:

Among level 5 and 6 executives, 55 percent received bonuses and ranks. Executives at these two levels comprised 16 percent of the rated SES population, and they received 30 percent of the awards given.

Among level 4 executives, 28 percent received bonuses and ranks. Level 4 executives comprised 63 percent of the rated SES population, and they received 60 percent of the awards given.

Among levels 1 through 3 executives, 16 percent received bonuses and ranks. Executives at these three levels comprised 20 percent of the rated SES population, and they received 11 percent of the awards given.

According to agency officials, higher level executives received a large share of the awards because of job importance, complexity, and difficulty; degrees of risk and responsibility; salary history, including promotions, pay adjustments, and length of executive service; organizational commitment—willing to move, serve on organizational task forces, participate as an instructor in training programs; and the attitude that no subordinate should receive greater compensation than his or her superior.

For the most part, these are factors customarily used to set compensation levels and are usually reflected in basic salary differences. In view of the salary compression brought about by the executive pay problem and the inherent difficulty in ignoring these factors when evaluating employees, it is not surprising they are affecting the distribution of bonuses and ranks.

A frequent criticism of the awards process has been that Performance Review Board (PRB) members—those who review and make recommendations on ratings and bonuses—are granting themselves awards. OPM statistics on 19 agencies showed that of

540 eligible PRB members, 224 or 41 percent, received award recognition—167 bonuses and 57 rank awards.

We visited three agencies—Internal Revenue Service, State Department, and Department of Energy—and found that of the five PRB members at IRS, two received rank awards and two received bonuses. At the Department of State, of the eight PRB members, one received a rank award and two received bonuses, and at the Department of Energy, three of the five PRB members received rank awards and two received bonuses. Virtually all agency officials told us that they carefully selected top performers for their PRB to help instill confidence in the process. Thus, it was not unusual for them to receive awards.

Rank awards were decided on by panels of executives from inside and outside the Government. At the three agencies we found rank award recipients were ruled ineligible to receive a bonus. Further, at the Department of Energy, three PRB members were selected to serve in part because they had received rank awards and therefore were ineligible for bonus consideration.

All three agencies precluded PRB members from considering themselves or any person they had rated for performance awards. At IRS, the Treasury Department's PRB reviewed performance for any member sitting on the IRS Performance Review Board.

Many agencies exceeded OPM's guidance to limit bonuses to 20 percent of career eligible executives. We cannot determine if all bonuses which exceeded the limit were endorsed by OPM because OPM gave some approvals orally, not documenting their consent for the record.

Of the three agencies we visited, two exceeded the 20 percent limit. The State Department gave eight performance awards, or 21.6 percent, rather than seven which would have complied with OPM guidance, but they reduced the award amounts to the individuals so that the total amount awarded stayed about the same. IRS gave 49 awards, or 21.4 percent, instead of 46. Both had received approval from OPM to exceed 20 percent.

To be eligible for an award, a career executive must have received a rating of not less than fully successful in the most recent performance appraisal. During the first SES appraisal period, however, some executives had not served enough time in the SES to receive performance ratings. If eligibility had been restricted to 20 percent of those who had received a rating, fewer awards could have been made.

In July 1980, we reported that OPM did a creditable job as the focal point for converting SES positions and personnel into the SES. We are currently reviewing how the system works under Presidential transition, including the propriety of conversions from noncompetitive to competitive positions.

From September 1, 1980 to January 26, 1981, 10 individuals were converted from noncareer and limited term SES to career SES positions. OPM analysts reviewed the competitive selection process before these conversions were sent to OPM's Qualifications Review Board. Based on our review, these conversions appeared proper.

The Civil Service Reform Act established a 120-day waiting period after the beginning of a new Presidential administration before a performance appraisal and rating may be made of a career

SES appointee and a 120-day waiting period before agency heads or immediate noncareer supervisors can reassign or transfer executives involuntarily. We are monitoring events during this waiting period and will undertake a review of such reassignments and transfers after the waiting period has passed.

That concludes my statement, Mr. Chairman. My colleagues and I will be pleased to answer any questions you may have.

Senator STEVENS. I want to yield to Senator Warner, but first let me ask you, have you reviewed the pay cap and its impact on the executive branch at any time?

Mr. SOCOLAR. We have looked at that and I would like Mr. Gould to respond to specifics. Generally we have found, and particularly in our own agency, a great deal of difficulty being caused by the pay cap.

Senator STEVENS. Have you issued one of the formal reports?

Mr. GOULD. Yes; we have issued a number of formal reports. The most recent was in connection with the last consideration by the Congress of the executive pay cap. I will be happy to provide that for the record for you.

Senator STEVENS. Without objection, we will enter that material into the hearing record.[1]

Senator Warner?

Senator WARNER. Thank you, Mr. Chairman. Let us see if we could just summarize a few things. First, you are generally supportive of this main thrust?

Mr. SOCOLAR. Yes. Generally, we feel that implementing systems as complicated as the SES bonus system requires a fair amount of time to work out the bugs. The experience of experts in the field indicates that perhaps as much as 10 years might be involved. These are very complex things and particularly when implementing this kind of a system de novo. There are lots of difficulties that have to be overcome.

Senator WARNER. You overheard the dialog that I had preceding, about a comparison with the Fortune 500. Do you think this is a valuable comparison for purposes of this inquiry? Could you assist in this?

Mr. SOCOLAR. I think that there are valid comparisons. On the other hand, I think also that there are some significant differences between this kind of a system and the public sector, as opposed to the private sector.

There is, for example, much more public awareness with regard to bonuses that are awarded. There are many more protective devices with regard to employees in the public sector. All of these add to the difficulties of applying these kinds of things.

Senator WARNER. Basically what I am searching for, and I think the Chair likewise, is to get some good, strong, credible data to convince our colleagues that this program should have its trial period. A decade seems to me a long period but nevertheless I defer to your expertise. Any assistance you can give in this area would be helpful.

I am thoroughly convinced, based on my own personal experience, that this thing is badly needed because I detect among my many colleagues in the Federal service, career employees—I am

[1] See p. 110.

now 54 and I am in that age bracket where most of these folks are—the morale is low. The consequence is that the American taxpayer is suffering in the sense it is almost a brain drain, with the top executives leaving. It is incumbent upon the Congress to do what we can not only to make it fair to those who remain in the system, but to provide incentives for others to stay a bit longer and perhaps give a measure of higher performance.

Mr. SOCOLAR. I want to emphasize that despite the fact that in terms of the reviews that we have made which tend to deal with the problem areas, I would be supportive of the need to continue the experiment for some time in the future before trying to reach any definite conclusions that would lead to its demise.

Senator WARNER. Thank you, Mr. Chairman.

Senator STEVENS. In any event, do you see a need for a system if this system does not work after a trial period? Is there a need in the Federal Government for a system of executive incentive?

Mr. SOCOLAR. Yes, I do. I also see a need very much to address the pay compression issue because I think that it is having very serious and deliterious effects on the civil service.

Senator STEVENS. I look forward to getting the information that you mentioned. Briefly, in terms of the study that you made, Mr. Gould, what is the impact of this system—the bonus system—on SES retention? Did you find any direct connection between those who received bonuses and retirements? Have you studied that?

Mr. GOULD. No, sir. We have not found any direct connection. As a matter of fact, some of the people who received bonuses subsequently retired.

You are not really talking about the kind of incentive that will keep people here longer. It is some additional recognition. For a person who is 55 and has 30 years of Government service, the motivations are very strong for them to retire and do something else. The amount of the bonuses that are being paid really will not affect that significantly.

Senator STEVENS. Were there any negative implications from the system on the SES—the bonus system?

Mr. GOULD. We believe there has been a very positive reaction to the performance appraisal part of the system. The failure to get bonuses—Senator Warner mentioned earlier, or Senator Percy, I cannot recall which one now—that 40 percent of the executives felt that there was favoritism and other things coming into play. Since about 80 percent of the executives are losers in the sense that they did not get bonuses, there is bound to be some feeling if you did not get a bonus, then somebody else got it because of other factors not related to performance. So there is that perception which will always come into play but it is not the kind of thing that ought to lead us into doing away with bonuses.

Senator STEVENS. Do you find any indication that the same people got the bonuses each year?

Mr. GOULD. Well, bonuses have only been paid once, so we have not had the opportunity to look at that yet.

Senator STEVENS. Mr. Shelton do you have any comments to make?

Mr. SHELTON. I fully support the office's position in the past mentioned work in the executive pay area. We have said in many

reports that pay compression was one of the most critical issues facing the Government and that something must be done about this problem. There are up to six different levels of responsibility, all making the same salary. As a result, in the age 55 to 59 group, 75 percent of the people who are at the ceiling and eligible to retire are availing themselves of that opportunity.

It appears to me that it is impossible to effectively run a Government if 75 percent of the top people in the Government choose to leave.

Senator STEVENS. I certainly agree with that.

Senator WARNER. If I may say so, Mr. Chairman, that is the brain drain.

Senator STEVENS. We will have some written questions to submit to you. We would appreciate it if you would respond and I would appreciate very much if you would consider that if you have not made a comprehensive report on the pay cap, then you will consider undertaking that. I think we are going to face a wholesale attack on the pay system if we do not get it removed.

Mr. SOCOLAR. Thank you, Mr. Chairman.

Senator STEVENS. Without objection, the record will remain open for the written questions and answers to be submitted.

[Responses to written questions submitted by Senator Stevens follow:]

GAO RESPONSES TO ADDITIONAL QUESTIONS SUBMITTED BY SENATOR STEVENS

Question 1. As you know, the Civil Service Reform Act provides that up to 50 percent of the career senior executives are eligible to receive a bonus. Last year, the Congress limited that amount to 25 percent, and the Office of Personnel Management further limited it to 20 percent. Do you feel 20 percent eligibility is sufficient to maintain a good bonus program?

Answer. We do not know how many Senior Executive Service (SES) members should be eligible for performance awards (bonuses) in a given year. As Federal agencies gain experience with bonuses, they and the Office of Personnel Management (OPM) should be in a position to recommend an optimal limit on the number of allowable bonuses.

SES went into effect on July 13, 1979, when nearly 7,000 or 98 percent of all eligible senior executives became members—many probably because of the 50-percent bonus provision in the Civil Service Reform Act. Only career executives, however, are eligible for bonuses. At least 85 percent of SES appointments Government-wide must be career executives. We can only speculate on what the rate of conversion to the SES would have been if career executives had known that rather than 50 percent, only 20 percent of them could receive bonuses during any fiscal year. However, surveys of SES members' attitudes indicate clearly a growing, widespread dissatisfaction, frustration, and bitterness over continued executive pay ceilings, irregular pay adjustments, and limited performance awards. Many executives perceive the pay freeze and congressional/administration action to limit the number and size of SES bonuses as a breach of faith.

The 20-percent limitation has forced agencies to be more selective in awarding bonuses. This points to a need to clarify and tighten the eligibility criteria for a performance award. The present criteria of "fully successful" performance is too liberal and, because of the 20-percent limitation, may serve as a disincentive or demoralizing factor. Over 99 percent of all executives rated in the first appraisal cycle were eligible, by law, for a bonus because they received a rating of fully successful or better, but only 20 percent could receive a bonus. By tightening the award eligibility criteria, thereby limiting awards to superior performers, the performance awards program could be tied more directly to the performance appraisal process. This should enhance the equity and credibility of bonuses.

But as we have said before, the best way to help insure a good bonus program is to allow executive pay increases to go into effect, thereby providing executive pay differentials and permitting bonuses to be used, as intended, to reward performance.

Question 2. If the bonus program is abolished this year, do you feel there is sufficient incentive for executives to remain in the SES, or must we look at overhauling the system once again?

Answer. The SES was created to attract and retain highly competent, motivated executives whose compensation is to be based on the scope of their responsibilities and their performance and contributions toward better Government. Bonuses are an integral part of the SES and are intended to recognize and reward outstanding performance.

Although there are six SES pay levels which recognize that some SES jobs are more responsible, more difficult, and/or require a greater degree of knowledge, skills, and abilities than others, virtually all SES members now receive the same salary. Pay compression places much pressure on SES rank and performance award programs. As long as pay compression continues, ranks and bonuses will be used by some agencies to compensate for deficiencies in the executive pay-setting and adjustment processes.

If the SES is to be successful, it must be allowed to operate as intended. This would require (1) allowing executive salaries to rise to their legal levels which would relieve much of the pay compression and (2) rewarding outstanding performance and accomplishments through the use of the bonus program.

Question 3. What is the greatest factor contributing to the high early retirement of senior executives?

Answer. We believe pay compression is the principal factor contributing to the alarmingly high rate of early retirement among senior executives. The retirement rate for executives at the pay ceiling has increased from 17.6 percent in March 1978 to 67 percent for the 12-month period ended August 31, 1980. The retirement rate during that period among career executives between the ages of 55 and 59 was an astonishing 95 percent.

Experienced executives are retiring at a time when this country can least afford it. With runaway inflation, declining productivity, and mounting pressure to reduce the level of Federal spending while still improving the economy, efficiency, and effectiveness of essential public goods and services, the taxpayers need and deserve the best available managerial talent. Executives and senior managers comprise only a small segment of the Federal work force, but this group is one of the most vital factors for helping insure the success of Government programs.

Executives whose pay has been frozen or adjusted infrequently and in smaller amounts than others are better off economically to retire as soon as they are eligible and receive the full, automatic cost-of-living increases granted to Federal retirees. Unless the pay compression problem is corrected, we believe high early retirement among senior executives will continue.

Question 4. My understanding is that the Performance Review Board members are generally chosen because they are considered the top executives. Therefore, to prohibit them from receiving any bonuses would be unfair. Yet, to allow them to decide their own bonuses is clearly a conflict of interest. Do you have any suggestions as to how they could be considered for bonuses without themselves deciding?

Answer. The credibility and equity of the bonus determination process can be enhanced by requiring that agency Performance Review Boards be composed of members from outside the particular agency in question or composed of members who are ineligible for awards. Members could be drawn from the non-Federal sector or from other Federal agencies. For example, an agency's Performance Review Board could be composed of executives from a sister or parent agency. A network of Boards under which members would not consider themselves or their colleagues for awards could be used to help insure that agencies' award determinations are objective. Also, Boards could be composed of SES rank award recipients who are ineligible for a performance award.

The use of independent Performance Review Boards composed of members from other agencies or the non-Federal sector would be similar to the process used to consider presidential rank nominations.

Question 5. Should job difficulty be a factor in determining whether one gets a bonus or should it be strictly performance?

Answer. Job difficulty and related factors such as job importance and degree of risk and responsibility should not be considered in determining which SES members receive a performance award. Such job factors, as well as executives' knowledge, skills, abilities, and salary/service history, are customarily used to set compensation levels and should be reflected in basic salary differences.

We believe that performance awards should be based solely on performance. But pay compression within the SES creates incentives and impetus for agencies to use such awards as a secondary compensation system to recognize various job factors and individual characteristics which normally are, and should be, reflected in basic

salary levels. As you know, there is evidence suggesting that, in some instances, SES rank and performance awards have been used to provide additional compensation to higher level SES members instead of their intended purposes of rewarding outstanding performance and accomplishments and encouraging excellence. We are not condoning this practice, but it is understandable and predictable under the circumstances.

As long as all SES members continue to receive the same salary, there will be a tendency to use SES rank and performance awards to compensate for deficiencies in the executive paysetting and pay adjustment processes. The proper way to minimize this pressure on the SES rank and performance awards program and allow it to operate as intended is to permit executive pay increases which will result in appropriate differentials among SES pay levels.

Senator STEVENS. The last witness this morning is Mr. Jerry Shaw, the president of the Senior Executives Association.

TESTIMONY OF G. JERRY SHAW, PRESIDENT, SENIOR EXECUTIVES ASSOCIATION

Mr. SHAW. Good morning, Senator. Good morning, Senator Warner. I have to disagree with the esteemed Government Accounting Office and the Office of Personnel Management, but I would like to update the 75-percent figure that they use. That 75-percent figure, I believe, was as of March 1980. I checked with the actuary at the Office of Personnel Management who keeps those figures and as of August 1980 that figure, the average annual rate of those people in the 55- to 59-year-old age group at the pay ceiling leaving was 94.7 percent.

I will point out some examples in my testimony where 42- and 43-year-olds who have 20 and 25 years of Government service are leaving because there is no incentive left for them to stay.

It is an honor and privilege to appear before you, Senator, on behalf of the Senior Executives Association.

The Senior Executives Association, which I am representing, is a professional, nonprofit corporation formed in the fall of 1980 by members of the Senior Executive Service and supergrade employees of the Federal Government. The Association is committed to efficient and effective leadership in Government by competent and professional career executives.

We are dedicated to obtaining adequate pay, training, benefits and recognition for the approximately 7,000 career senior executives who run the Federal agencies and bureaus on a day-to-day basis, who implement the laws, policies, and initiatives of our political leadership, and who provide executive direction to a Federal work force numbering in excess of 2 million employees.

We believe, as do most Americans, that economic betterment is one of the dominant forces which drives all individuals to achieve excellence. While those of us who chose careers in Government recognized from the start that this was not the path to maximize our earning potential, we did expect that a combination of ability and hard work would be rewarded. Members of the Senior Executive Service and others who have achieved supergrade status are people who through hard work, skill, and competition have risen to the top levels of Government, to the pinnacle of their profession.

In theory the expectation that excellence and achievement merit pecuniary reward has been shared by every administration and Congress as is evidenced by the graduated pay scale and, in fact, is the foundation of our capitalistic economic system.

Most recently, in the Civil Service Reform Act of 1978, the concept of rewarding meritorious performance was carried further than ever before through the establishment of an SES bonus system and a Merit Pay System for mid-level managers. Government executives are acutely aware that implementation of civil service reform has already cost the Government many millions of dollars and executive staff time in the structuring of new evaluation systems so that there can be a more direct linkage between performance and pay. We senior executives have primary responsibility for this implementation. We should be doing this with an infectious enthusiasm.

However, how could anyone realistically expect this to happen when most senior executives have been denied any raise for many years and have endured breaches of commitments, such as SES bonuses being cut by more than 50 percent after executives were induced to join SES and many had already completed their first performance period.

We believe that the theory of rewarding excellence, which is at the heart of the SES system, is valid and can be of tremendous benefit to Government operations. However, if the theory continues to be undercut by imposition of unrealistic pay ceilings, coupled with what is perceived as a continuation of the breach of commitments regarding the SES bonus system, we think that the elaborate evaluation systems now being put into effect will be a very costly charade.

The performance award or bonus system established for senior executives in the Civil Service Reform Act has proved to be one of the most controversial aspects of the law. When it was initially enacted, and while it proposed to provide economic incentives in the form of awards for up to 50 percent of the SES employees, it was looked upon as a strong incentive to join SES by supergrade employees and to give up many job protections in the process. It is important to point out that nearly all supergrade employees, over 98 percent, believed that they could compete and win in the SES system, and were willing to take substantial risks to do so.

The subsequent cutbacks in the bonuses and the controversy surrounding their receipt by the 20 percent or less who did get them was a devastating blow to the faith and trust that Government executives previously had for the promises of Congress. It will be years before the wounds caused by this breach of faith and commitment are healed.

As you know, one of the first acts of this Association was to file suit over this reduction by Congress and OPM. At our first general membership meeting, with approximately 225 members present, the vote to file the suit was 224 to one. The one dissenter did so only because he wanted us to seek as an additional remedy the destruction by the courts of the entire SES system as a remedy. This, the other members declined to do, but that declination was far from unanimous.

From this background, you can see that we are bound to continue our suit to its conclusion, which should be some time in August of this year. We did not file a spurious suit, but one which an entire group of lawyers reviewed and felt had merit. We continue to believe that is true.

We do not believe that the bonus program was well implemented Government-wide. Some agencies never did get performance objectives established for their executives and as a result many did not pay any bonuses. Others paid only a few.

We are sure that OPM will provide you with specifics, but this obviously must be corrected for the program to have validity. Executives across the Government should have an equal chance to compete for bonuses. An incentive system like this could work. Obviously, however, agency implementation of the system needs to be improved.

Probably the worst criticism of the system to date is that it was being used by agencies to reward the very people who were deciding on the bonuses. In other words, those who were sitting on the Performance Review Boards were the ones receiving the bonuses. Others have talked about this, Mr. Chairman, so I will not belabor the point, but it does not surprise us, because obviously an agency head is going to put those who he values the highest on the Performance Review Board because he trusts their judgment the most. The fact that those people subsequently got a high percentage of rewards is not unusual, in fact it should be expected.

Just as obvious, however, is the resulting outcry of allegations that the members of the PRBs are feathering their own nests. This must and should be changed. Those who are on the PRB should not be allowed to give anyone on that Board a bonus. Instead, there must be greater interchange among agencies of Board members, so that the bonus awards are proposed or reviewed by PRB members from other organizations for those sitting on the agency PRB.

We do not believe the bonus provision should be repealed, but rather, we strongly believe it should be allowed to operate for a few years to see if it has the desired result. However, we know that unless it is once again increased to 50 percent of SES positions being eligible, it will not work.

This last year the 20 percent who did get the bonuses were embarrassed. They knew that the lines of distinction drawn between them and their co-workers were extremely narrow, and they also knew that many others deserved the same reward. We are unaware of any private sector company which has a well operating and accepted bonus system which is limited to less than 50 percent of those eligible. As you know, the Business Roundtable has said essentially the same thing. In most situations, up to 100 percent are eligible, and if a bonus of some amount is not received, it is time to start looking for another job.

We do not believe that bonuses are being used to circumvent the executive pay ceiling. Based on the present system, at least 80 percent of those in the race are branded losers each year, and it is difficult to imagine that the remaining 20 percent or less who receive an average of $5,000 or less feel that the pay ceiling is being circumvented.

The bonus does not count toward retirement and is fully taxable. As a result, most executives will net in actual cash, $2,500 or less, and this is not even 1 year of college tuition at an inexpensive State school. While any amount is welcome, we do not believe these amounts are going to pervert the pay ceiling Congress has so unfairly imposed.

We wonder whether the Senate, the House, and the American people realize what a devastating effect the pay cap and the bonus system cutback are having on Government executives. Do they realize that the retirement rates of executives at the pay cap in the 55 to 59 year old age group have gone up from 15.5 percent in March 1978, to 29.9 percent in March 1979, to 74.6 percent in March 1980, to 94.7 percent in August 1980, the latest date for which figures are available? Do they realize that they are paying annuities of $24,000 and more to the retirees and then paying $50,000 to their replacement when, if they had allowed modest raises to the executive, he or she would have stayed on, and the taxpayers would have saved up to $18,000 every year per person?

Do they realize that the people who are leaving are not the stereotype lazy, do-nothing bureaucrats but: astronaut Deke Slayton of NASA; Dr. Robert Levy, Director of the Heart, Lung and Blood Institute at NIH; Mr. Eugene Kopf, the Principal Deputy Assistant Secretary of the Air Force, Research, Development and Logistics, who at 42 years of age has resigned to go to private industry; Dr. Robert Wiseman, Assistant Deputy Secretary for Science and Technology, Department of the Army, whose research on night vision optics was instrumental in development of many night vision devices; Mr. Roy McKinnon, Assistant Director of the FBI, who conducted the Tony Boyle investigation in the Yablonski murder case, who helped handle and was the number two person at the Wounded Knee crisis, who conducted the Peoples Temple investigation, and oversaw getting the Iranians out of their Embassy in Washington; Mr. Ronald Swann, Director of the Structural Integrity Division of the Ship Design and Integration Directorate, Hull Group, who is a qualified naval architect and worked on missile submarine hulls, and who conducted research and development activities on fabrication requirements and fracture control in ship and submarine hulls, after 22 years of Government service at the age of 43, Mr. Swann left to go to private industry, and there are many, many, others.

Do the Congress, the administration, and the American people seriously believe that the necessary parts of Government like the National Institute of Health, the Social Security System, the Federal Bureau of Investigation, the Department of Navy, the Department of Army, and others will just continue on forever when all the executives get forced out by low pay and no reward system?

Do they seriously believe that when, not if, these institutions break down, our system of Government which has endured and grown for over 200 years will just merrily roll along? If they do, they are sadly mistaken and if action is not taken soon, this Government will be in crisis. It does not take a genius to understand that an organization will not function at the same level when its experienced and competent executives abandon it.

The Senior Executive Service system has many faults, of which we constantly and rightly complain. However, in the opinion of this Association, it has one great benefit. It has given identity to, for the first time, the senior group of career employees who have commonality of interests, work, personnel problems, and capabilities, all of which transcend traditional department and agency bounds.

In the past, the identification of most Government executives was with their individual agency or profession. They rarely, in their 30- to 40-year career, departed from either. This has now begun to change, and many executives are ready and willing to take on what they perceive to be new challenges and opportunities even if they are located in other agencies or areas of the Government.

While this ability to identify with a coherent group may present some difficulties to political leaders presented with problems voiced by a new and united group of career executives, it also provides a unique opportunity. The ability to speak with one group in identifying and dealing with management problems and inefficiencies Government-wide is an exciting prospect. By providing leadership to this one identifiable group, the administration and Congress can effectively improve Government and can put in place permanent systems to improve efficiency and productivity Government-wide.

For these reasons, we believe the SES could be a good system. If properly utilized and properly led, and most importantly, if executives are properly compensated for their efforts, we believe it can substantially benefit the citizens and taxpayers of this country by improving and making more efficient Government operations.

However, unless some monetary relief is soon forthcoming, the opportunity will be lost. We are not asking for huge pay raises. If the pay cap were allowed to expire in June and executives could draw their legal pay they have been denied, we think this would be a sign of good faith. The "massive hemmorhage," as Dr. Levy put it when he spoke to me, of the best and most experienced executives leaving Government would be stemmed. If the restriction to 25 percent on the bonuses were allowed to expire, this too would help.

We recognize that the Government will not cease to function next month or next year if Congress and the administration fail to increase our salaries. The effect will be more insidious and slow, but the damage once done will not soon be remedied.

Too often in the recent past, we have failed to deal with foreseeable problems until after actual damage has occurred. A timely example is the failure to deal with the deterioration of our military due to inadequate compensation for NCO's and technicians, causing them to leave the service. It apparently took a disaster in the Iranian desert to draw sufficient attention to the problem. We hope and pray that it will not take another disaster to cause the Congress, the administration, and the American people to face up to the problems now threatening actual damage to our basic institutions of Government.

Thank you, Senator, for the privilege of appearing before you. I will be happy to answer any questions.

Senator STEVENS. Thank you very much, Mr. Shaw. That is a good statement and you have represented your people well.

I have a series of questions that I would like you to respond to. You have some new statistics there and I intend to call them to the attention of the Senate on the floor of the Senate. I appreciate what you have done to present a very strong and forceful statement.

Since I am going to submit those questions and my colleagues have all gone to other hearings—that is why we started at 8

o'clock, because many members of this committee serve on three committees and, therefore, they must have an opportunity to go to the 10 o'clock meetings.

Without objection the record will stay open for written questions and answers.

[The responses of the Senior Executive Association to questions submitted by Senator Stevens follow:]

RESPONSES TO WRITTEN QUESTIONS SUBMITTED BY SENATOR STEVENS

Question 1. As you know, most of the bonuses in various agencies were awarded to the top SES levels. Would you support a restriction in the law limiting the number of executives eligible to receive a bonus in each of the levels?

Answer. No. We do not believe that bonuses should be awarded on the basis of "rank of position" in the agency. This would be substituting bonuses for pay differentials which should exist between positions.

Question 2. Do you feel that the bonus should be awarded for factors outside of the performance appraisal?

Answer. No, but the performance appraisal should take into account all relevant factors, and the appraisal should reflect the difficulty of performing in that particular position.

Question 3. Would you support a restriction of the law that would prohibit an employee from receiving a Presidential award and a performance award in the same year?

Answer. Yes, because in most agencies that is what happened when the number of bonuses was restricted to 20 percent.

Question 4. One of the problems experienced during the initial implementation of the award was that the members of the Performance Review Boards were deciding their own awards. How would you feel about using only the prior year's rank award members for the present year's Performance Review Board members.

This would in a sense, exclude these individuals from receiving any award that year.

As an alternative, how would you feel about authorizing two or three so-called super Performance Review Board groups that would be from various agencies who would decide as to whether or not the various Performance Review Board members from each agency would be entitled to a bonus?

In this way, the Performance Review Board members could receive bonuses but would not be deciding their own.

Answer. We do not favor restricting PRB membership to the prior year's rank award winners. We do believe that PRB's should be restricted from recommending anyone on that PRB for a bonus. Special PRB's whose membership is drawn from other Agencies or Departments should review PRB members appraisals and make bonus recommendations for them.

Question 5. A more difficult problem, I believe, that has arisen is partially due to the pay cap. That is, that all the senior executives are being lumped into one group and the ones who have the more difficult jobs receive the higher rating and thus receive bonuses. Therefore, in some cases it is probable that those who are performing admirably in a less difficult job are not getting bonuses whereas those who are not performing very well or as well in a more difficult job do get the bonuses. How would you feel about a requirement that the Performance Review Boards, prior to the beginning of each rating period, look over the critical elements of the job and then determine how difficult the job is? Then, possibly, those who have comparably difficult jobs could be put into one group and judged accordingly rather than lumping everybody together?

Answer. We would not favor a grouping of comparably difficult jobs. There is a great deal of dynamism over the course of a year. The relative importance of a job may change, and the executive's job assignment may change. We also think that forced stratification of the bonuses would have a negative impact on executives. The availability of bonuses is too limited now, and this would decrease the availability even more. We believe that the supervisor and the PRB can take these factors into consideration when they do the performance appraisal.

Senator STEVENS. We will now stand in recess.

[Whereupon the committee stood in recess subject to the call of the Chair.]

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

STATEMENT OF JAMES G. BOURIE
DIRECTOR FOR ECONOMICS
THE AMERICAN LEGION

BEFORE THE

SUBCOMMITTEE ON CIVIL SERVICE
COMMITTEE ON GOVERNMENT AFFAIRS
UNITED STATES SENATE

CONCERNING
MATTERS PERTAINING TO THE SENIOR EXECUTIVE SERVICE

APRIL 27, 1981

Mr. Chairman and members of this subcommittee:

The American Legion is appreciative of this opportunity to submit our statement concerning matters pertinent to the Senior Executive Service.

Pertinent resolutions and correspondence are attached, with the request that they be made part of the record.

We wish to comment on title 5, United States Code, Section 4313, Criteria for performance appraisals, wherein members of the Senior Executive Service are to be judged on five (5) performance criteria. Of the five performance evaluations, nowhere is the enforcement and/or promotion of veterans' preference mentioned. Veterans preference is simply not a part of their performance evaluation. Thus, members of the Senior Executive Service are free to circumvent or dilute veterans' preference without fear of a poor performance rating.

This is indeed difficult to understand as the Director for the United States Office of Personnel Management, the Honorable Donald Divine, appearing before the House Veterans' Affairs

BEST COPY AVAILABLE

Subcommittee on April 2, strongly endorsed veterans preference and the special hiring programs for Vietnam era veterans and 30 percent disabled veterans.

However, in the past, the Office of Personnel Management never endorsed nor promoted veterans preference and the special hiring programs, but, instead, using the maximum extent and intent of the Civil Service Reform Act of 1978, allowed each agency to monitor their own performance in the area of affirmative action goals.

Consequently, for the period April 1, 1979 through September 1, 1979, statistics for the Veterans Readjustment Appointments (VRA) program reveal only 10,709 appointments out of 219,032 (4.9 percent) government wide appointments. Noncompetitive appointments in this Special Vietnam era veterans hiring program can be made up to and including a GS-7 level. However, 48.2 percent were made at the GS-3 level; positions such as laborers, janitors and food workers. This same situation is indicative of the working of the 30 percent disabled hiring program. For the period October 1, 1979 through March 31, 1980, only 213 appointments were made by only six agencies. Recent statistics released by the Office of Personnel Management for the special hiring programs are not much better, and point out that agencies, far from embracing these programs, are quite resistant to them.

Mr. Chairman, we believe that regardless of the laws concerning veterans' preference, most members of the Senior Executive

BEST COPY AVAILABLE

82-432 O—81——5

Service are adamantly opposed to the enforcement and promotion of veterans preference, and, in some instances, will circumvent veterans preference. We see this with the Fish and Wildlife Service, wherein their affirmative action plan for Region I, a plan that is, by law, to be reviewed and approved by both the Equal Employment Opportunity Commission and the Office of Personnel Management relative to veterence preference; states that veterans preference is an impediment to the hiring of other groups and then lists ways veterans preference can be avoided. We see this also under 38 United States Code 3310, wherein the positions of guards, elevator operators, messengers, and custodians are to be given to preference eligibles. However, the government contracts these positions out, thus denying a preference eligible the opportunity to compete.

We are especially concerned now that the Administration has announced plans to implement reductions-in-force procedures. Although veterans preference is to be strictly observed and enforced, there are indeed ways for government managers to circumvent veterans preference and thus RIF a veteran.

Mr. Chairman, we strongly urge this Subcommittee to consider legislation that would make the enforcement, promotion and evaluation of vwterans preference and special hiring programs a separate criteria in judging performance of members of the Senior Executive Service. Otherwise, veterans preference will become a hollow concept. This is not the time to bury veterans preference and veterans employment programs deep within an enforcement program which has little or no authority.

Mr. Chairman, The American Legion thanks you and this subcommittee for allowing us the time to present our views.

BEST COPY AVAILABLE

The American Legion
• WASHINGTON OFFICE • 1608 "K" STREET, N.W. • WASHINGTON, D.C. 20006 •
(202) 861-2700 •
For God and Country

March 9, 1981

Mr. Donald Devine, Director
Office of Personnel Management
1900 E Street, N.W.
Washington, D.C. 20415

Dear Mr. Devine:

We are in receipt of Mr. Ramsay's letter to this office,with enclosures, of February 27, 1981, concerning the U.S. Fish and Wildlife, Region I, admendments to their affirmative action plan deleting adverse reference to Veterans Preference.

Upon review of the amendments; however, at page 6, IV Constraints And Recommended Resolutions, Recommended Solution #1, we notice it makes no mention of the 30 percent Disabled Veteran special hiring program. Title 38, U.S.C. at Section 2014(a) states that "[I]t is the policy of the United States and the purpose of this Section to promote the maximum of employment and job advancement opportunities within the Federal Government for qualified disabled veterans..." Additionally, Section 2014(c) states that "[e]ach department... shall include in its affirmative action plan for the hiring... and advancement of handicapped individuals in such department... to promote... such affirmative action with respect to disabled veterans in order to achieve the purpose of this Section." Agencies have never fully implemented this program as evidenced by recent figures for hires under the 30 percent Disabled Veterans special hiring programs, wherein for the period October 1, 1979 through March 31, 1980 only 213 appointments were made in the federal service by only 8 agencies. Such figures hardly conform to the spirit and intent of Section 2014 c, as disabled veterans have an exceptional high rate of unemployment.

We are also troubled to read at Recommended Solution #2 that Region I intends to "[u]tilize the 'name request' procedure for selection of minorities and women from the Life Sciences register in Grades GS-9-12." It is our contention that under the Civil Service Reform Act of 1978, as it applies to Veterans' Preference, this "name request" procedure is a prohibited practice.

It is our understanding of the act that candidates for federal positions are listed on Civil Service registers in order of the examination grades they have earned plus their preference points; except that those disabled veterans who have compensable service-connected disabilities of 10 percent or more rise to the top of the register. Further, that under the rule of three "An agency is permitted

BEST COPY AVAILABLE

to hire any one of the top three persons on a register except that it must give sufficient reasons acceptable to the Office of Personnel Management for passing over a veteran to select a non-veteran. Therefore, for the Fish and Wildlife service to establish a "pool" of names from which to draw is contrary to the Civil Service Reform Act of 1978 as it applies to veterans preference.

A reading of the Act reveals that the Office of Personnel Management has the responsibility of reviewing federal agencies' affirmative action plans, and to make recommendations should such plans not be in accordance with law. The burden does not fall to service organizations to scrutinize agency affirmative action plans to ensure compliance with veterans preference. However we believe that if such outside review is not done, federal agencies will totally disregard veterans preference as promulgated in the Act. The Fish and Wildlife affirmative action plan is only one plan brought to our attention; but the question remains of how many other agencies are in violation of the Act. A believable answer would be most, if not all. This is especially significant as the prospect of reduction in force within the federal service becomes reality.

We respectfully request that our points be reviewed in light of the affirmative plan as it applies to Veterans Preference under the Civil Service Reform Act of 1978.

Sincerely yours,

James G. Bourie

JAMES G. BOURIE
Director for Economics

cc: Members of the Senate Committee on Veterans Affairs

Members of the House Committee on Veterans Affairs

James G. Watt, Secretary of Interior

Marvin Horstmann, Chief
Veterans Employment Programs
Office of Personnel Management

BEST COPY AVAILABLE

SIXTY-SECOND ANNUAL NATIONAL CONVENTION
OF
THE AMERICAN LEGION
AUGUST 19-21, 1980
BOSTON, MASSACHUSETTS

RESOLUTION NO.: 52

COMMITTEE : ECONOMICS

SUBJECT : SUPPORT VETERANS PREFERENCE IN FEDERAL EMPLOYMENT

WHEREAS, A grateful Nation has, following each war, indicated its thanks to those who bore the battle by providing certain rights and benefits, one of which has been a small advantage when seeking Federal employment, and in retention of that employment; and

WHEREAS, Absence from the highly competitive job market due to military service creates an unfair and unequal burden on veterans in competing with their nonveteran peers upon completion of military service, which this preference in Federal employment is intended to partly overcome; now therefore be it

RESOLVED, By The American Legion in National Convention assembled in Boston, Massachusetts, August 19, 20, 21, 1980, that The American Legion strongly support veterans preference in Federal employment as provided by a grateful Nation, and oppose any efforts to reduce this preference.

BEST COPY AVAILABLE

A BILL

To include among the functions of the Office of Personnel Management, and of its Director, responsibility for enforcement of the veterans preference laws; to include veterans preference as a specific matter for enforcement by the Merit Systems Protection Board; to require enforcement by the Office of Personnel Management of veterans preference in the excepted service; and for other purposes.

Be enacted by the Senate and House of Representatives of the United States of America in Congress assembled.

Sec. 1. That Chapter 11, title 5, United States Code, is amended as follows:

(1) striking out in Sec. 1103(a)(5)(A) the second "and" and inserting in lieu thereof a comma; and

(a) striking out the semi-colon and inserting in lieu thereof a comma; and

(b) adding, "and the provisions of this title that implement the Congressional policy that preference shall be given preference eligibles in appointment and retention in the competitive and excepted service;"

(2) amending Sec. 1104(b)(2) to read as follows:

"(2) The Office shall establish and maintain an oversight program to ensure that activities under any authority be delegated under subsection (a) of this section are in accordance with the merit system principles, the provisions of this title giving preference to veterans, and the standards established under paragraph (1) of this subsection."

BEST COPY AVAILABLE

(3) Sec. 1104(b)(3) is amended by inserting the words "the veterans preference laws, and" after "civil service laws" and before "rules."

Sec. 2. That Chapter 12 of title 5, United States Code, is amended as follows:

(1) by changing Sec. 1205(a) by deleting "and" in (3), changing the period to ";and" and inserting after (4) the following:

"(5) Conduct, from time to time, special studies relating to the implementation of the veterans preference laws, and report to the President and to Congress as to whether the preference granted to veterans in the competitive and excepted service of the executive branch are being adequately enforced."

(2) amending Sec. 1206(a)(1) by inserting after the word "practice" and before "and" the words ", any allegation of the denial of a right under a provision granting a preference to a preference eligible," and by changing the period to a comma and adding "or that a preference right has been denied a preference eligible."

Sec. 3. Chapter 13 of title 5, United States Code, is amended as follows:

(1) Section 1302(c) to read as follows:

"(c) The office shall prescribe regulations, and, except with respect to functions for which the Merit Systems Protection Board or the Special Counsel is primarily responsible, shall enforce regulations for the administration of the provisions of

BEST COPY AVAILABLE

this title that implement the Congressional policy that preference shall be given to preference eligibles in certification for appointment, and in appointment, reinstatement, reemployment and retention in the excepted service in Executive agencies, permanent or temporary, and in the Government of the District of Columbia."

(2) by renumbering "2" to "3" in Sec. 1303 and adding a new paragraph to be designated as "2" as follows:

"(2) the enforcement and effect of the rules prescribed by the President under this title for the administration of the excepted service, and regulations and procedures prescribed by executive agencies for giving effect to veterans preference in appointments in the excepted service; and"

(3) by adding the following paragraph as (2) to Sec. 1308(a), and to renumber paragraphs "(2)" "(3)" and "(4)" to "(3)" "(4)" and to "(5)" respectively:

"(2) a statement of the exceptions to the competitive service in force from which conversions into the competitive service without competition have been made pursuant to law, Executive order, rule or regulations, the reasons for non-competitive conversion to the competitive service, and how the provisions of law giving preference to veterans were applied;"

BEST COPY AVAILABLE

Sec. 4 Chapter 23 of title 5, United States Code, is amended as follows:

(1) by striking out in Sec. 2302(b)(1)(D) the word "or" and by adding the word "or" to the end of Sec. 2302(b)(1)(E) and adding the following new subsection "(F) on the basis of any preference provided by law."

(2) by inserting in Sec. 2302(b)(10) "or pass over any preference eligible" after "employment"

(3) by striking the period at the end of paragraph 2302(b)(11) and adding the following: ", or violates any provision of this title, or rules or regulations implementing such provision, granting preference to veterans."

Sec. 5 Subchapter 1 of Chapter 33 of title 5, United States Code, is amended as follows:

(1) Section 3320 is amended to read as follows:

"The nominating or appointing authority shall select for appointment to each vacancy in the excepted service in the executive branch and in the government of the District of Columbia from the qualified applicants in the same manner and under the same conditions required for the competitive service by sections 3208-3318 of this title. For positions other than those of a confidential, policy determining, policy-making or policy advocating character, applicants shall be assigned numerical ratings determined by the agency on the basis of established objective standards and criteria perviously reviewed and approved by the Office of Personnel Management, which shall be available to applicants. Ratings of qualifying preference eligibles shall be

BEST COPY AVAILABLE

augmented in the same manner as required for the competitive service.

'The review and approval function required of the Office of Personnel Management by this section shall not be deemed an examination, and shall not be subject to delegation under the provisions of Section 1104 of this title.

'This section does not apply to an appointment required by Congress to be confirmed by, or made with the advice and consent of, the Senate.

Sec. 6. Subchapter I of Chapter 35 of title 5, United States Code, is amended as follows:

(1) by adding to Sec. 3502 a new subsection "(d)" to read as follows:

"(d) the provisions of this section shall apply to a preference eligible in the excepted service in the same manner and under the same conditions as if the preference eligible were subject to competitive service."

Sec. 7 Subchapter II of Chapter 42 of title 5, United States Code, is amended as follows:

(1) by striking the period in subchapter (5) and inserting in lieu thereof a semi-colon (;) and the word "and" immediately thereafter.

(2) by adding a new subsection "(6)" to Section 4313 to read as follows:

"(6) The advancement, protection and promotion of veterans preference as promulgated under this title and Section 2014 of title 38, United States Code."

BEST COPY AVAILABLE

Sec. 3 Chapter 72 of title 5, United States Code, is amended as follows:

(1) adding a new subsection "(f)" to Section 7201 to read as follows:

"(f) Vietnam era veterans are hereby declared to be underrepresented in the labor force of the United States. Each Executive agency shall conduct a continuing program for the recruitment of Vietnam era veterans having other than dishonorable discharges for competitive and excepted positions in the agency, and the Office shall conduct a continuing program of assistance to agencies in carrying out such programs. The provisions of subsections (d) and (e) of this section shall be applicable to the Vietnam era recruitment programs authorized by this subsection as appropriate."

BEST COPY AVAILABLE

EXPLANATION

of Bill to amend title 5, United States Code, to ensure enforcement of the veterans preference laws in the competitive and excepted service.

This bill would amend title 5, U.S. Code, to ensure the enforcement of the rights of veterans under the Civil Service Reform Act in both the competitive and excepted service in the Executive branch. The amendments would not increase the preference of veterans or add new substantive rights to existing rights of preference eligibles; nor would they add new procedures. They would simply extend to veterans the existing procedures and processes which the Civil Service Reform Act established for the protection of employee rights in general, but which currently, apparently through Congressional oversight, fail to cover veterans' rights. The amendments would bring enforcement of veterans' rights into line with enforcement of general employee rights.

Section by Section Explanation

Section 1

Section 1103 of title 5, USC, does not make "executing, administering, and enforcing" the Veterans Preference Act one of the functions of the Director of the Office of Personnel Management. Since the Veterans Preference Act is not held to be a "civil service law," a change is necessary to clarify and make certain that implementation of the Congressional policy on veterans preference is as much a function of the Director of the Office of Personnel Management as other functions specified in section 1103.

The amendment to section 1104(b)(2) makes this section (which authorizes the Director to delegate authority to agency heads) consistent with the proposed change in section 1103. It has been the experience of The American Legion that any delegation of personnel functions to the agencies leads to violations of veterans preference. This amendment to section 1104 specifically provides that the oversight program of personnel activities carried on under such delegation will include veterans preference as a personnel component to be included in oversight responsibility.

This amendment will also spell out the responsibility of the Director, OPM, to ensure compliance with the veterans preference laws in such delegations of personnel authority.

Section 2

The addition of a paragraph to section 1205 a... and the change in section

BEST COPY AVAILABLE

1206(a)(1) of title 5, USC, that section 2 of this bill proposes, would make the Merit Systems Protection Board and the Special Counsel the "watch-dogs" of veterans preference, just as they are now the guardians of the merit system and civil service laws.

Congress has shown a clear determination to maintain, largely unchanged, those provisions for veterans preference granted in an earlier day by a grateful Nation. At this time, when Congress is again considering registration for military service, it is both appropriate and essential that Congress be kept up-to-date on how veterans preference is faring. The report this amendment would require will be as welcome and useful to the President and the Congress as a report on the incentive awards program, provision for which is already contained in this section of the law.

The Special Counsel of MSPB currently has no authority to receive and investigate an allegation of a denial to a preference eligible of a preference right. The amendment to section 1206(a)(1) would rectify this omission from the Civil Service Reform Act.

Section 3

The amendment to section 1302(c) is necessary because present law calls for the OPM to prescribe and enforce regulations for administering veterans preference in the competitive service, but only to prescribe regulations for such administration in the excepted service. This was a carryover from the wording of the previous law, a wording which enabled the Civil Service Commission to fail to enforce veterans preference in the excepted service, leading to blatant violations. This amendment provides unquestionable authorization and responsibility for the OPM to enforce veterans preference in both the competitive and excepted service. Considering that over 40 percent of the Federal work force is in the excepted service, this lack of enforcement in the excepted service adversely affects many preference eligibles.

The amendment to section 1303 adding a new paragraph is needed principally because this section as it now reads focuses on subsection (a) of subsection 1302, and leaves to one side subsections (b) and (c) which are the portions of section 1302 which relate to veterans preference. The change the amendment would make would require the OPM, MSPB, and the Special Counsel to have the same concern for veterans in the competitive and excepted service as they now have for nonveterans in the competitive service. The authority to investigate is vital to enforcement.

The paragraph that would be added to section 1308(a) would provide to the President and the Congress an annual update of the number of positions filled

BEST COPY AVAILABLE

without applying five and ten point preference in the selection process as required by the Veterans Preference Act. Section 1308, as it now reads, leaves Congress in the dark on the manner in which veterans preference is applied in the excepted service, which now forms a large portion of civil service jobs. When excepted positions are filled, the practice is to apply five or ten point preference only, "if feasible." Since numerical scoring is rarely found to be "feasible" in filling excepted positions, use of a two-step process in which employees are first appointed to excepted positions and later converted into the competitive service (without competition) results in circumvention of the Veterans Preference Act, and in the loss to many veterans of jobs Congress intended that they should have.

Section 4

Section 2302 Prohibited personnel practices, as it currently reads, does not prohibit personnel practices that result in denial of preference rights. Since nonveteran employees in excepted positions do not have the protection in adverse actions that veterans in excepted service are given by the Veterans Preference Act, they can be removed at the pleasure of the agency without cause. As a result, agencies are tempted to discriminate against the veteran by filling excepted positions with nonveterans, who can be removed without cause. The many well established violations of veterans preference (such as those documented by the 1977 GAO report on veterans preference) can only be regarded as discrimination against veterans. This kind of discrimination will undoubtedly be a greater temptation to agencies and even less easy to identify when personnel operations are delegated to the agencies. Making discrimination on the basis of a preference provided by law a prohibited personnel practice will discourage such practices. The amendment of 2302(b)(1), as proposed, would accomplish this.

The addition to section 2302(b)(11) of the words, "or violates any provision of this title, or rules or regulations implementing such provision, granting preference to veterans," would make violation of the rights of veterans a prohibited personnel practice.

Section 5

The amendment to section 3320 would require assignment of numerical ratings when excepted positons are filled, and the establishment of standards and criteria for rating. The standards and criteria for rating would be determined in a manner similar to those for performance appraisal systems provided for in chapter 43 of title 5, USC, - Performance Appraisal. The present practice of "category ranking," which is not authorized by statute, would be ended, and veteran preference would be applied as intended by Congress. Confidential,

BEST COPY AVAILABLE

policy determining policy-making or policy advocating positions, and appointments requiring confirmation by the Senate would be excluded.

It is necessary for Congress to state in the law that the review and approval functions of the Office of Personnel Management shall not be discharged an examination because some agencies are of the opinion that limitations in the OPM's appropriations laws against the examination of attorneys prohibit it from reviewing or approving criteria for the selection of attorneys. This provision would make clear that the OPM's review and approval under this section would not be an unlawful use of its appropriations.

Section 6

The amendment to section 3502 would simply provide the same treatment of veterans in the excepted service as in the competitive service. Under present regulations, preference eligibles in the excepted service are not ensured "bumping" or retreat rights in reductions in force. Few agencies grant these rights, which they are permitted to grant by the existing Section 351.705 of the Code of Federal Regulations. This amendment will provide uniform retention rights for veterans throughout the excepted service on a par with those provided in the competitive service.

Section 7

Section 4313, Criteria for performance appraisals, as it currently applies to members of the Senior Executive Service provides criteria on which members of the Senior Executive Service are to be judged relative to performance. Of the five (5) criteria the advancement, protection and promotion of veterans preference in the federal civil service is omitted, thus allowing members of the Senior Executive Service to circumvent and avoid veterans preference without threat of recourse or adverse performance rating.

By the inclusion of veterans preference as one of the appraisal criteria it would therefore be incumbent upon Senior Executive Service members to advance the intent of Congress concerning veterans preference. Moreover, such inclusion would strengthen Section 3112, which is the special 30 percent disabled veteran hiring program, and, with reference to 38 U.S.C. 2014, further the intent of Congress relative to job opportunities within the Federal Government for qualified disabled veterans and veterans of the Vietnam era, including use of special hiring authorities.

Section 8

The amendment to section 7201 would provide for active recruitment of Vietnam era veterans. According to Sec. 2014 of Chapter 42, title 38, U.S.C., It is the policy of the United States... to promote the maximum of employment

BEST COPY AVAILABLE

and job advancement opportunities within the Federal government for qualified disabled veterans and veterans of the Vietnam era." This cited section goes on to provide for the responsibility of the Civil Service Commission (now the Office of Personnel Management) to report to Congress on Federal hiring of veterans, with separate reporting on disabled and Vietnam era veterans.

This amendment provides in title 5 for recruitment of Vietnam era veterans in order to provide the maximum of employment opportunities within the Federal government for qualified Vietnam era veterans, as intended by Congress. It is in conformity for other provisions for recruitment of Federal employees contained in this same section.

BEST COPY AVAILABLE

STATEMENT OF THE CLASSIFICATION AND COMPENSATION SOCIETY

Mr. Chairman and distinguished members of the Subcommittee:

The Classification and Compensation Society is grateful for this opportunity to express its views before your subcommittee. We believe the Society is in a unique position to comment on the issues now before you. Our membership includes some of the most well-informed people in the Federal service on matters relating to executive compensation, yet, as a Society, we have no vested interest in any specific legislative proposal. Almost none of our members are in the Senior Executive Service themselves, and the Society's membership encompasses a broad range of views on the subject. Nevertheless, we agree that certain fundamental principles should be kept in mind by your subcommittee, and this testimony deals primarily with those principles as we see them.

The search for an intelligent and effective approach to executive compensation in the Federal service begins with an understanding of the purpose of the Federal executive, the conditions that make the executive effective, and the proper relationship between the Government as an employer and the Federal executive. In recent years, America has dealt with these matters very poorly.

The purpose of the Federal executive is to carry out effectively the purposes of American Government (as set by the President, the Congress, and the Courts). They must be technically competent to run their programs. This means that they should understand what new laws and social conditions imply for their programs. They should understand what parts of their programs are working effectively, and what parts are not, and why, and what can be done about the failings. They should understand the place of their programs in American life, and what place their programs should not hold. These straightforward purposes seem simple enough. In fact they require the very best, and they take time to learn.

82-432 O—81——6

The conditions needed to make these executives work effectively are the same needed by almost anyone. The more clearly the President, the Congress, and the Courts can explain what they want, the more likely these executives are to do an effective job. The more practical and achieveable the goals, the more likely they are to succeed. The less hidebound the rules governing them, the less hidebound and bureaucratic they will be. The better training they are given, the better they can be. The more time they have to learn the practical details of their programs, the more potentially effective they can be. And, the more respect and appreciation they receive, the more they will give of themselves. Executive compensation is only one part of that last item, but it is an important part, and when all of these conditions are ignored, a poor compensation system can be the last straw that causes the slide to mediocrity and incompetent performance.

This brings us to the question of a right relationship between the employer, in this case the American people, and the employee. Much has been said in recent years about the effectiveness of the Japanese style of management. That effectiveness depends heavily upon the employer behaving in such a manner as to deserve the employee's full commitment. Commitment must be earned. The Federal government has taken precisely the opposite approach to Federal executives. Two administrations in a row have campaigned for office as if Federal career executives were the enemy, and a third recent administration set about to subvert the career service itself without legislation. Congressional campaigns do much the same. The career executives, stuck with administering constantly shifting and increasingly unpopular laws and programs, their pay chronically "capped", their advancement effectively shut off by layers of constantly changing political appointees above them, have been an easy mark.

Recently, the President and the Congress brought about a new Senior Executive Service for Federal executives. Those executives were asked to give up many of their job rights and protections to take part in the new SES which was to reward excellence and commitment and punish mediocrity through a new pay system. Acceptance of that system was almost universal among Federal executives even though acceptance meant giving up many job protections. They learned almost immediately that, in minds of many who pushed the new system, the purpose was not to reward excellence at all. It was to punish those whose performance appraisals were low, and to hold the line on the rest. No large corporation anywhere would consider that a practical way of doing business.

If the political leadership of America continues to use the career executives in the Federal service as scapegoats while continuing to "cap" their pay and refusing to reward excellence, the quality of management in the Federal service will quietly decline, and the national will is almost certain to decline with it. Our power as a civilization depends less on our individual brilliance than on our ability to take on vast jobs as a nation: to build our cities, develop our communication systems, irrigate our deserts, feed our poor, build our highways and railroads, develop our technology, and maintain justice. Government isn't responsible for all of this alone, but without an effective Federal service, none of the rest can be sustained. There is already ample evidence that competition for senior executive positions is diminishing, and those who stay on beyond minimum retirement age are becoming increasingly rare. We are losing our most experienced and our best. The growing use of these positions as scapegoats, the lack of credible pay incentives, and the capricious treatment of executive pay are already taking effect. If we continue to treat our Federal service executives as we have, our national expectation of chronic incompetence will produce it's ever-deepening reality.

Whatever the specific provisions considered by the Congress, we hope the following guidelines will apply:

- Keep in mind that Federal executives are decent, competent Americans, not the enemy.

- Serious turnover in these positions is damaging to the effectiveness of the Federal service. It contributes to the worst kind of bureaucratic behavior since new people on the job can hardly be sure of their ground; it leads to costly bungles when program decisions are based on incomplete understandings of programs; and it produces turmoil in the workforce which is forced to adjust constantly to new leadership.

- Responsibility requires authority, and the room to use it. Managers should be trusted or removed from managerial positions.

- Commitment must be earned. An employer is unlikely to get it without deserving it.

More specifically, we would suggest the following:

1. Remove the pay cap, or lift it significantly.
2. Leave the original system of SES pay and bonuses, minus the pay cap, in place for the next two or three years until there are results to assess. In the long run, we believe it will prove best to place no limit at all on the percentage of executives who can earn bonuses. A dollar limit, set by a specific formula, would be a much more effective and direct control on cost, and would leave the department or agency head with the managerial room to suit the bonuses to the organization's specific needs at the time.

Thank you for this opportunity to present our views.

THE SECRETARY OF DEFENSE

WASHINGTON, 20301

APR 27 1981

Honorable Ted Stevens
Chairman, Subcommittee on
Civil Service, Post Office and
General Services
Committee on Governmental Affairs
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

The Senior Executive Service is one of the most important of the provisions of the Civil Service Reform Act (CSRA). It offers the possibility of improved management of that group of senior career professionals upon whom every Administration must rely for both expertise and continuity.

Nearly 100% of the eligible "supergrade" employees of the Department of Defense joined the Service with the understanding that they would give up some of their job security in exchange for the chance to compete for bonuses. It is unfair and unwise to eliminate the promised benefits before the new system has a fair chance to operate. I hope the Congress not only will continue to support the award of bonuses to successful executives, but will restore the 50% reduction made last year in the number of bonuses which could be awarded under the original provisions of the Act.

The use of bonuses to reward executives for outstanding performance has long been viewed by industry as a signficant motivational tool. Given the executive pay cap and the salary compression it causes, the SES bonus program was seen by both the architects of civil service reform and the potential members of the SES as being a much-needed means of differentiating outstanding performers from their less able peers. Institution of such a process has been proposed by the last three administrations. Connecting excellent performance to tangible financial reward can motivate our executives to produce more and better. In order to encourage this performance, though, bonuses must be payable to a portion of the SES population large enough to make the performance message clear.

As it was passed, the CSRA approved payment of bonuses to career SES members in a number not to exceed 50% of the total number of SES positions government-wide. These bonuses

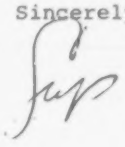
could be paid in amounts up to 20% of the executive's payable salary. A combination of appropriations amendments and the Office of Personnel Management guidance then determined that bonuses could not be given to more than 20% of the eligible personnel and stipulated that no more than 5% of the bonus recipients could receive 20% of their payable salaries. In Defense, then, out of an eligible population of 1033 Senior Executives, only 214 people received bonuses, which average 10.8% of the payable salary. The limitation on bonus amount was less troublesome than the limitation on bonus number.

For a variety of reasons, including the pay cap and the sharp reduction in the number of bonuses authorized, we have been experiencing serious losses from our senior executive positions. During 1980, nearly 20% of the total DoD Senior Executive Service members resigned or retired. In the twelve-month perod ending in March, a startling 75% of career executives Government-wide in the 55-59 age bracket who were at the executive pay ceiling and were eligible to retire did so.

It would not be in the public interest if Congress were to further erode the benefits available to this key group of experienced and talented executives on the mistaken assumption that they are overpaid, or that the bonus provisions of the Civil Service Reform Act will overpay them to an even greater extent. These are our top employees, who carry broad responsibilities that are the equivalent of those of top executives in the private sector. Although we cannot match private sector executive salaries, we need to provide Government executives with reasonable financial rewards for their work if we are to attract and retain the talent so badly needed to manage complex Government programs.

Thank you for the opportunity to express my views on this most important subject.

Sincerely,



Statement
by the
Department of Defense
on
Senior Executive Service Bonuses
Submitted to the
Subcommittee on Civil Service, Post Office
and General Services
Senate Committee on Governmental Affairs

April 27, 1981

The Department of Defense is pleased to have this opportunity to submit its views to the Subcommittee on Civil Service, Post Office and General Services on the Senior Executive Service bonus program established by the Civil Service Reform Act of 1978.

The bonus program is strongly supported for two basic reasons: first, the concept of pay for performance is basically sound and should be given a fair trial; and second, there is a continuing commitment on the part of the Federal government to those who voluntarily joined the Senior Executive Service not to erode further, without adequate reason, the benefits that were promised them when they joined the service. It is the hope of the Department of Defense that the Congress will support the award of bonuses to successful executives as authorized under the original provisions of the Act.

Nearly 100 percent of the eligible "supergrade" employees of the Department of Defense joined the Senior Executive Service

with the understanding that retention and rewards would depend upon performance. It is unfair and unwise to eliminate the promised benefits before the new system has a fair chance to operate. By electing to become members of the Senior Executive Service, Federal career executives gave up some employee protections and gave the Executive Branch, as their employer, the opportunity to move them within the Senior Executive Service as required to meet mission needs and to return them to the GS-15 level when their performance is not considered fully satisfactory. One of the major features of the Senior Executive Service system which convinced many Executives to join was the promise of an opportunity to receive pay directly related to their performance. To eliminate the promised benefits before the system has a chance to become fully operational not only would break faith with them, but would send a signal to senior executives in the Federal service that there is little chance that exceptional performance will be recognized.

The Department of Defense has been experiencing serious losses from our senior executive service positions. During 1980 nearly 20 percent of the total DoD Senior Executive Service members either retired or resigned. Since 60 percent of the SES positions in the Department of Defense are in scientific and engineering occupations, those losses are difficult to replace. A good indication of what is happening

Government-wide is reflected in the statistics concerning losses of career executives during the twelve month period ending last March. During that year, 75 percent of career executives in the 55-59 age bracket who were at the executive pay ceiling and were eligible to retire, did so. If the bonus program is discontinued, the disillusionment with the Senior Executive Service system will be virtually complete and then we can expect a continued drain of experienced and needed talent.

Since March of 1969, the salaries of Federal officials have fallen dramatically behind salaries of the corresponding group in the private sector. As an example, executive rates in the private sector are reported to have risen by more than 116 percent during the period. This compares with the 39 percent rise in the salaries of employees in the Senior Executive Service directly affected by the $50,112.50 statutory ceiling. During this same period, the Consumer Price Index rose by more than 130% resulting in serious erosion in the purchasing power of salaries which have increased only minimally during the period.

The bonus system is not intended as a means of compensation for erosion of pay, but it was designed as a part of the total compensation package for Senior Executives and its curtailment or elimination combined with the salary problems just outlined will make an already difficult situation worse.

The notion that bonuses were excessive or loosely distributed is unfounded, at least as far as the Department of Defense is concerned. A great deal of time and effort went into establishing and measuring performance objectives.

The initial recommendations of supervisors were extensively reviewed by Performance Review Boards for consistency and objectivity. The final recommendations as to the rating and eligibility for a performance bonus represented the consensus of a substantial number of well qualified persons.

Within the Department of Defense, the bonus system has been administered conservatively. Only 214 of 1033 eligible employees, or 20.7 percent, received bonuses in 1980. The average bonus was $5,426, or 10.8 percent of salary, considerably less than the 20 percent maximum authorized by law.

The bonus program, is an essential element of the Civil Service Reform Act provision for promoting and rewarding excellence in senior executive service positions. It needs a full and fair trial. The program has been in operation for one year and, as with any complex new program, some period of testing and adjustment is needed. Severely restricting or eliminating the number and amounts of bonuses orginally provided for by the Civil Service Reform Act denies the Federal service the opportunity to gain the experience it needs to determine how a bonus system may be used effectively to encourage sustained superior performance. It is strongly urged that the Senior Executive Service bonus plan be allowed to operate as provided in the Civil Service Reform Act and that judgment regarding its effectiveness be reserved until after it has had a fair trial.

STATEMENT OF

ANDREW L. LEWIS

SECRETARY OF TRANSPORTATION

BEFORE THE SUBCOMMITTEE ON CIVIL SERVICE,
POST OFFICE AND GENERAL SERVICES
OF THE COMMITTEE ON GOVERNMENTAL AFFAIRS

APRIL 27, 1981

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today. Since I personally support the Senior Executive Service (SES) bonus system, let me attempt to explain how the Department of Transportation (DOT) bonus system was developed and how last year's bonus recipients were identified. As a preface to my comments, you should know that I have reviewed the Department's procedures and have every confidence that the procedures are well founded.

In 1979, a task force of the Department's Administrative Management Council, comprised of some of the senior career

employees of the Department, worked on a system to encourage excellence in performance by all SES members. The final result of this effort was a system which combines significant independent discretion by the Head of each Operating Administration, yet left the final authority for bonuses with the Secretary. In this process, every effort has been made to avoid any questions regarding the integrity of the bonus system as administered in DOT. We recognize, however, that there is always room for improvement, and we are starting a review of the process to develop a set of recommendations based on the experience gained.

In accordance with guidance provided by the Office of Personnel Management (OPM), the performance appraisal of SES members were reviewed by an appropriate Performance Review Board (PRB) established within each Operating Administration and the Office of the Secretary. Nominations for bonuses were then submitted by Departmental Officers and the Heads of each Operating Administration to a Departmental PRB comprised of the Deputy Secretary, a career Administrator from the Department who was a recipient of a Presidential Rank Award, the Deputy Assistant Secretary for Administration, and a career official from OPM who was also a recipient of a Presidential Rank Award. In addition to the completed Performance Appraisal Record for each individual, which documented performance accomplishments, Departmental Officers were required to submit for review a justification in

support of each bonus recommendation. The final decision on those career members of the SES who received bonuses, as well as the amount, was made by the former Secretary of Transportation based on the recommendation of this review board.

One of the most important aspects of the recent Civil Service Reform legislation was the establishment of the SES. In this Administration, as well as in future Administrations, the SES is the key to improving the efficiency and effectiveness of the Federal government. At the time the SES was created, Federal executives were asked to make a commitment of considerable magnitude to this system which was new and untried. Those individuals who accepted an assignment under the SES did so based on a high degree of confidence and trust in a system which traded security for flexibility and the understanding that outstanding achievements would be noted and rewarded.

I recognize and share the extreme concern expressed in regard to insuring that performance bonuses awarded to SES executives be limited to those whose work is truly outstanding. I also recognize the compelling need to reduce the cost of government and have initiated a number of steps to do so in the Department. However, I believe that the bonus system provides for an effective and motivated corps of senior civil servants and an incentive to every member of the career Senior Executive Service to strive for

exceptional accomplishments. Last years limitations on the SES performance bonus system, while not seriously affecting the operation of the SES, reduced the number of bonuses that agencies were able to award by more than half. I believe that any further reduction to the bonus system will have an adverse and unfortunate impact on the morale and outlook of the government's SES members. When the SES was established, all but one of the Department's eligible employees joined. Our executives were clearly willing to accept the risks and challenges of the new system. To remove the potential rewards associated with the system would, I believe, be a breach of good faith.

The success of any organization depends in large measure on the motivation, quality, and leadership of top Federal managers. The bonus system recognizes improved Government performance that is more responsive to public needs. With respect to the operation of the bonus system in the Department of Transportation, I am confident that those senior managers who received bonuses were truly outstanding and that the process that identified them as bonus recipients reaffirms a central principle of Civil Service Reform, that pay should be linked to performance.

FEDERAL EXECUTIVE INSTITUTE ALUMNI ASSOCIATION
Post Office Box 304 • McLean, Virginia • 22101

April 27, 1981

The Honorable Ted Stevens
United States Senate
Washington, D.C. 20510

Dear Senator Stevens:

It has come to my attention that your Subcommittee on Civil Service, Post Office, and General Services has scheduled an oversight hearing on the Senior Executive Service (SES) bonus program for April 27, 1981. As President of the Federal Executive Institute Alumni Association (FEIAA), I would like to share with you and the subcommittee the views held by individuals who are most directly affected by the SES bonus program.

While I cannot speak on behalf of all Federal executives, as President of the FEIAA, I can speak on behalf of our Association's membership. We, the FEIAA, represent approximately 1,500 graduates of the Federal Executive Institute in Charlottesville, Virginia. A substantial portion of our members are in the SES, while the balance have been targeted by their Federal agencies as potential candidates for SES positions. As such, we will be directly affected by any decisions that may result from your hearings.

Therefore, I would ask that a copy of the enclosed testimony we previously provided at the April 7, 1981, hearing on the Senior Executive Service before the Committee on Post Office and Civil Service's Subcommittee on Civil Service be circulated among your subcommittee members and be made a part of the record of your hearings. Both the brief introduction on pages 2 and 3 and our response to the following series of questions posed by the House subcommittee appearing on pages 3-7 of our testimony would appear to be of value to your own current investigation.

> Were the provisions of 5 USC 5384 providing for performance awards for members of the Senior Executive Service well implemented during 1980, are changes needed either in agency implementation or in the basic legislation, should the bonus provision be repealed, are bonuses being used to circumvent executive pay ceilings?

You may also be interested in our response to the House Subcommittee's following questions on the merits of the SES appraisal systems.

> Are the agency performance appraisal systems developed for the SES valid, clear and objective? Have these systems gained the respect of those who are rated and those who do the rating? Is more central monitoring of these systems needed? Are performance appraisals given sufficient weight in bonus determination?

These questions and our answers appear on pages 11 and 12 of the enclosed testimony.

In closing I would like to say, that the FEAA applauds your interest in investigating the merits of the SES bonus program. We are willing to make ourselves available to be of any service we can to your committee. If you should wish to contact me, I can be reached at either (202) 343-5380 or (202) 659-4087.

Sincerely,

Paul Lorentzen

Paul Lorentzen
President

Enclosure

TESTIMONY OF THE FEDERAL
EXECUTIVE INSTITUTE ALUMNI ASSOCIATION
TO THE
SUBCOMMITTEE ON CIVIL SERVICE
OF THE
COMMITTEE ON POST OFFICE
AND CIVIL SERVICE

HEARING ON SENIOR EXECUTIVE SERVICE
APRIL 7, 1981

Paul Lorentzen
President
Federal Executive Institute
Alumni Association

I am pleased to present this testimony today on behalf of the Federal Executive Institute Alumni Associate (FEIAA) and we appreciate the invitation to testify. I currently serve as President of FEIAA. Our Association was founded over 10 years ago as a non-profit corporation by graduates of the Federal Executive Institute who did not want to lose the benefits of associations established at the Institute. Our almost 1500 members represent a substantial portion of the Federal executives in the Senior Executive Service (SES) and of those being developed for early entry into that service.

Our Policy Issues Committee has established a Task Group on SES Issues, so we are appreciative of this opportunity to appear before your subcommittee to present our views based on its work to date. This subject, as you might expect, is of

82-432 O—81——7

great importance to our membership; and the excellence with which the public business is conducted is in large part dependent upon the intelligence and commitment of those who have made public service their career.

On the whole, we are optimistic that the current system, with proper monitoring and support from Congress, the Administration and the Office of Personnel Management, can be made to work in the best interest of executives in the Federal service and the public.

The following questions and answers represent our response to the issues raised in your letter of March 20, 1981.

1. Were the provisions of 5 USC 5384 providing for performance awards for members of the Senior Executive Service well implemented during 1980, are changes needed either in agency implementation or in the basic legislation, should the bonus provision be repealed, are bonuses being used to circumvent executive pay ceilings?

During 1980, the provisions of 5 U.S.C. 5384 with respect to performance awards were implemented in a very mixed manner. The original percentage limitation on the maximum numbers of people in an agency who might be given such awards (50%) was progressively constrained by the Congress, and, subsequently, by the agencies based on additional guidance from the Office

of Personnel Management. Members of some agency award committees were alleged to have favored their own members. Some agencies appeared to be far more conservative or selective than were others in granting bonus awards. All these problems are to be expected, particularly in the early stages of a program which is implemented on an agency-by-agency basis; and there will always continue to be differences of opinion as to the proper ceiling on such awards government-wide, or within a particular agency. As indicated below, the experience of the private sector can serve as a basis for comparison, if not a standard of excellence.

We have four basic concerns: First, the existence of a pay cap makes other rewards for exemplary service all the more important and tends to stimulate an unhealthy tendency towards viewing bonuses as a replacement or substitute for adequate salary levels. Second, the subjectivism of this award structure, even with extra-agency review, will always have some residue of suspicion for those who may feel that the system is "unfair." Third, executives in different agencies at the same level and in similar occupations and types of work are not compared against any uniform standards for performance awards, leading to potential unfairness in the implementation of the bonus provisions. Fourth, special

monetary recognition, particularly when it is large and limited, tends to place an additional premium on self-aggrandizing, "me first" behavior which is destructive of cooperative team work.

Stating these four concerns implies to a certain extent some avenues for allaying them. Paying career executives at salary levels more comparable to those in the private sector is one, that is removing the artificial pay cap. The use of review panels made up of objective individuals (perhaps including compensation and program results-oriented managers from the private sector and outside Federal agencies) might help with the second problem. The development of more specific government-wide performance criteria for various categories of executive work would address the third. And inclusion of a category for reward of cooperative as well as competitive behavior, or "team awards" might help with the fourth.

At present, there is a premium on sometimes subtle but generally destructive behavior, caused by the combination of a pay cap and a limited number of large potential monetary rewards. We have almost guaranteed suspicion of favoritism, backbiting, undercutting, and a whole panoply of attitudes

and behaviors tending to make the federal establishment less productive as a workplace.

As suggested above, private-sector comparisons may be instructive. For example, research needs to comparatively examine the results of the current Federal experience with those of organizations in which all executives at or above a certain level are assured of a bonus in accordance with the results of an agreed-upon performance plan, especially where there seem to be clear possibilities for cost savings and efficiencies.

We strongly encourage the Congress to require the Office of Personnel Management to prepare a comprehensive report of the available research findings and hypotheses about the organizational effects which may result from the existing Federal rewards structure in order to identify appropriate alternatives. For example, it may be that smaller awards, more broadly available and focused on teamwork in addition to, or instead of, the current "star system," might be more productive and less likely to engender destructive or counterproductive attitudes and behavior.

The FEIAA strongly urges that the Congress cc..sider repeal of the current bonus provisions and their replacement with

financial awards for specific achievements by individuals or teams using agreed upon government-wide criteria.

2. How has the Senior Executive Service weathered the Presidential transition, has the 120 day restriction on reassignments been obeyed, does this provision need revision, is a major shifting of career members of the Senior Executive Service planned, what role should the White House have in the Senior Executive Service?

We are now in the twelfth week since President Reagan's inauguration. The "120 day rule" is thus running; and it will be at least mid-summer before we have much experience with the post-120 day consequences of this legislative provision in many agencies. In fact, many anticipate that it will not be until one or more court tests of the somewhat confused reading of when the "120 days" actually ends for a particular individual that we will see daylight on this issue. However, we have a few thoughts we want to share with you on the subject.

We would be surprised if the new appointive leadership of the Executive branch does not make use of the tools bequeathed them by the Carter Administration and we expect some portion of the career SES to be reassigned for the following reasons:

- to assure that key career professionals are properly responsive to current policy concerns; and

- to use talented career professionals in positions where they can make a significant contribution to the attainment of important public program objectives.

After all, one major potential of the Civil Service Reform Act was to recognize the excellence of the individual, and not make this recognition and reward conditional on the particular job he or she happened to be holding at any given time in any particular administration.

The Act also held out the promise of breaking down the walls between agencies, thus furthering the idea that talented managers could make significant contributions to the management of the government.

During the past few years, the Office of Personnel Management gave only limited assistance to this interagency movement concept. After the SES had been implemented for several months, OPM provided biweekly issuances of a central listing of supergrade vacancies which, generally, did not reach many of the qualified people who were interested in the positions. Offers of assistance from Federal executive professional associations to help establish a "brokering" system were not accepted.

We know that a more positive program of SES planning, management and oversight is possible and we urge that it be undertaken by the Office of Personnel Management with or without parallel interest and support from the Office of Management and Budget. The career professional workforce is the most valuable resource available to the government, and its waste and abuse is unconscionable.

Individual agencies vary in their capacity for identifying and properly training and using senior executives and we feel that a significant level of central guidance is called for. After all, each agency is rewarded for holding onto, rather than sharing, this valuable resource and will tend to resist "losing" the best managers to other agencies, even where it would be in the best interests of the public, not only the individual concerned. For these reasons, we urge that SES career workforce plans, training monies and appointments be closely managed and monitored by the OPM.

Simple statistics on numbers of SES career personnel moved to new positions have little meaning when taken alone. We agree, however, that we should be alert to any evidence of illegalities or "vendettas"; and be prepared to take or suggest corrective action--including legislation where that may appear to be useful. This alertness should extend beyond

the end of 120-day period and constitute a continuing posture. We suggest that this Sub-Committee conduct similar hearings on this specific point sometime this summer, e.g. June or July.

3. What rights do members of the Senior Executive Service have in agencies required to reduce their work forces, do SES members get some sort of bumping right into the competitive service. What is being done to inform career Senior Executive Service members of their rights?

At this time it is not clear what rights SES members will have during a reduction in force. OPM has not published final regulations to provide guidance to agencies and departments. Current indications are that their guidance will be broad in nature and will provide agencies and departments flexibility in establishing procedures. Bumping rights within SES based on rank of the SES member or rights into competitive service (GS-15 and below) have not been determined.

To our knowledge, no action has been taken to inform career SES members of their rights. However, we shall be reviewing closely whatever regulations and guidance are published, to ensure that they agree with the letter and spirit of the

statute and the printed material issued by OPM in 1979 which explained the Senior Executive Service and induced executives to join the system.

4. Are the agency performance appraisal systems developed for the SES valid, clear and objective. Have these systems gained the respect of those who are rated and those who do the rating. Is more central monitoring of these systems needed. Are performance appraisals given sufficient weight in bonus determinations.

It is our impression that performance appraisals vary greatly. Ideally they should reflect the specific responsibilities and goals of the rating period. Some supervisors have exhibited strong preference for "generic" appraisals for SES members with disparate duties. This provides a greater level of subjectivity in the rating process.

Undoubtedly there are organizations where the appraisal systems have been taken very seriously by both the raters and the ratees. However, it is not difficult to find instances where the appraisals are received as a "necessary bureaucratic evil." When a supervisor indicates that he or she does not need a rating form to determine who should get a bonus and who should not get a bonus, and the appraisals are executed at the last minute or not at all, one cannot conclude that the system has worked.

Since the appraisal systems are designed to identify the outstanding performance, central monitoring and auditing appear to be a must. This is equally important within an agency or between agencies.

It is difficult to access whether or not performance appraisals are given sufficient weight in bonus determination. If appraisals are subjective in nature, the rating can be adjusted up or down to reflect the desires of the reviewer in relation to eligibility for the bonus.

It is recognized that quantification of performance can never be totally objective. But our impression is that in most agencies, insufficient training and top management support (generally political appointees who do not qualify for a bonus) are inadequate and contribute to an increasing disatisfaction and suspicion of the viability of the SES system as currently structured and implemented.

5. Should provisions of the Senior Executive Service statute be made applicable to exclude agencies such as the Drug Enforcement Administration, the Export-Import Bank, the Federal Bureau of Investigation and the National Security Agency.

The SES goals of improved management and rewarding excellent performance should be extended to all Federal agencies. We

see no need to exclude agencies such as the DEA, the Export-Import Bank, the FBI and the NSA because of the type of responsibilities assigned executives at these agencies. On the contrary, exclusion denies the basic premise of the SES - that the rank resides in the individual who should be able to transfer his or her skills, talent and experience from one agency to another.

However, we recognize that there may be some other, compelling reasons for excluding specific agencies by statute from SES; and we understand that the Congress is the final judge in this regard. Excluded agencies can of course still capture the SES goals mentioned above through implementation of their own systems.

JOHN S. IRVING, JR.
4918 EARLSTON DRIVE
WASHINGTON, D.C. 20016

May 8, 1981

Senator Ted Stevens
127 Russell Office Building
Washington, D.C. 20510

Dear Chairman Stevens:

I am pleased to have this opportunity to submit for the record my views to the Subcommittee on the performance award program for Senior Executives.

I am presently in the private practice of labor law representing management and have been so since October 1979. Prior to that time, I was in government for fifteen years, thirteen at the National Labor Relations Board and two at the U.S. Department of Labor. During my last four years in government, I was appointed by then President Ford to serve as General Counsel of the NLRB. As General Counsel, I was the administrator responsible for the supervision of approximately 2500 Agency employees composing the Agency's Regional Office operations and the General Counsel's staff in Washington. During the last year of my term as General Counsel, I was responsible for implementing the Senior Executive Service provisions of the Civil Service Reform Act in the General Counsel's Office.

There are sixty-five Senior Executives at the NLRB of which fifty were under my supervision. In implementing the Senior Executive Service provisions of the Civil Service Reform Act, I met with these Executives and as you might expect, took the lead in briefing them about the purpose and benefits of the new program. One key aspect of those briefings and of the commitments made to them if they joined the Service was the opportunity to compete for and receive performance awards. This was particularly attractive because it presented the opportunity for as many as 50% of these Senior Executives to receive performance awards.

I was very pleased when all of those eligible decided to join the Senior Executive Service. I saw the Congressional commitment to the program, complete with promised salary increases and performance awards, as a great opportunity for these Senior Executives.

I also saw the Service as an important opportunity for the public. First, the agreement of executives to participate in the Senior Executive Service provided high level government policymakers with the flexibility needed to ensure that their policies and programs are implemented. Let there be no mistake, for those electing to join the Service, performance became the key and the consequences for unsatisfactory performance under the new system are swift and sure. This trade-off of security for greater recognition and compensation is a key element of Civil Service Reform and redounds to the ultimate benefit of the public in addition to high level government policymakers.

A second direct benefit to the public brought about by the creation of the Senior Executive Service relates to the lifting of morale among government managers. Most of the Senior Executives at the NLRB have spent their careers at NLRB, committed to the enforcement of the National Labor Relations Act and to the service of the public. For many years they, along with all Federal Managers, had suffered with increasing administrative burdens and seemingly endless paycaps. The Senior Executive Service, an essential part of the delicate balance struck by Congress in the Civil Service Reform Act, was a shot in the arm. The promised benefits were excellent, but even more importantly, the creation of the Senior Executive Service signalled that Congress had at last recognized the substantial resource which this Country has in its Senior Executives. For too long, the Congress has spent its time in developing legislation assuming that there would be the leadership in the Executive Branch to implement it. Little if any action was taken

to assure that the leadership would be the best possible. The creation of the Senior Executive Service seemed to me to be the turning point. Congress was committed to the Senior Executive and the Senior Executive sensed that commitment and entered the Service with a heightened enthusiasm for his/her job and responsibilities.

We began to see the results almost immediately at the NLRB. I am sure you know of the Office of the General Counsel's outstanding record for productivity and public service. I recognized a new spirit among NLRB Executives because of the Congressional commitment to them, but, I will be frank, I did not expect to see many dramatic improvements in this outstanding record as a result of the Senior Executive Service.

I was wrong. Almost immediately, we began to see substantial improvements in the morale and in the productivity of our staff. It would be easy, but very wrong, to attribute these changes solely to striving for performance awards by Senior Executives. However, I am sure that was a part of it. What happened was a response to Congress; a renewed commitment by Senior Executives in response to the commitment and recognition given them by Congress. Indeed, I saw the Senior Executive Service as nothing less than a contract between the Congress and the Senior Executive; a pact with each side pledging itself to the other with the public as the beneficiary.

I will not burden you or the record with the statistics which reflect the response of these NLRB Senior Executives. I can summarize them very easily. I left office in October 1979, just after the end of Fiscal Year 1979. The greatest part of fiscal 1979 was performed under the Senior Executive Service and turned out to be the best performance year in the history of the Office of the General Counsel. Productivity, timeliness and the quality all improved that year together with the morale of the Senior Executives.

It has been almost two years since I left the NLRB and many Senior Executives who served with me have since left; some for retirement and some to enter the private practice of law. The Civil Service Reform Act has been amended to reduce from 50 to 25 percent the number of Executives eligible for bonuses. The promised pay raises never materialized.

While I can understand the concerns that prompted Congress and the President to restrict the salaries of Executives, I do not agree with the pay and bonus restrictions. As the size of the federal workforce decreases, the volume of work to be handled will become greater and greater. This increases the need for highly qualified executives to lead federal departments and agencies. Salary paycaps become counterproductive. The work gets heavier, inflation diminishes salaries, and retirement bonuses become more and more attractive. The result is obvious. The competent managers we need most in government at times like this, leave and the public all become the losers, particularly when it is increasingly difficult to attract competent private sector managers to take their places. The paycap is, of course, the most serious injustice committed against the Executives. In addition, the reduction of the percentages of Senior Executives eligible for bonuses represents another serious breach of commitment to executive excellence. Men and women labored long and hard under a commitment from Congress only to have the rules changed after the game was over.

Neither should the benefits of a revitalized and fully funded Senior Executive Service Program to government policymakers and ultimately the public, be understated. Elected officials and their policymakers must have the full range of tools available to them under the Senior Executive Service to ensure that their policies are implemented. This can be done by providing them with the range of incentives needed to motivate talented executives, as well as the disincentives needed to discourage or punish those who fail to perform.

This Committee is now considering the benefit programs under the Senior Executive Service. You have an opportunity to make major improvements in the benefits available to Senior Executives. I know that a primary concern now is the bonus or performance awards program. Even if it is not possible to lift the paycap at the present time, I urge you to restore the 50% eligibility rule. As I have indicated, it was an essential element in the delicate balance struck by the Civil Service Reform Act and in inducing government executives into opting to join the Senior Executive Service. Restoration of the 50% rule will be viewed by the Senior Executives as a renewed commitment and should go a long way toward improving their morale and ensuring efficiency and effectiveness in government.

Sincerely,

John S. Irving, Jr.

cc: Senator David Pryor
The Hon. Donald Devine
The Hon. William A. Lubbers

BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Federal Executive Pay Compression Worsens

Despite a 5.5-percent salary increase in October 1979, the adverse effects of limiting or denying these increases to Federal executives have worsened.

Pay compression now extends further into the General Schedule and covers about 90 percent of Senior Executive Service (SES) members. This results in 6,100 of 6,800 SES members and over 10,000 other top Federal executives receiving the same salary despite wide variances in levels of responsibility. Executive pay purchasing power continues to decline and executive recruitment and retention problems for Federal agencies persist. The incentive to retire is also increased by generous cost-of-living adjustments to retirement annuities. The success of SES may also be threatened by salary limitations.

GAO recommends that the Congress allow annual pay adjustments, discontinue linking congressional and Executive Level II salaries, and allow bonus and rank provisions to take effect for SES members.

FPCD-80-72

JULY 31, 1980

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. [illegible]

B-199649

To the President of the Senate and the
Speaker of the House of Representatives

This report, "Federal Executive Pay Compression Worsens," discusses the adverse effect that limiting and denying pay increases continues to have on Federal executives and agencies and suggests actions to alleviate these problems. We initiated this review because of our continued concern about the effect of executive pay-setting practices on the attraction and retention of well-qualified executives.

We are sending copies of this report to the Director, Office of Management and Budget; the Director, Office of Personnel Management; and other interested parties.

Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

FEDERAL EXECUTIVE PAY
COMPRESSION WORSENS

D I G E S T

During the last several years, Federal executives' pay problems have steadily worsened. Adjustments that were supposed to be provided to Federal executives under Public Law 94-82 and Public Law 90-206 have continuously been limited, reduced, or completely denied. The Senior Executive Service (SES)--hardly a year old--was to provide monetary rewards on the basis of many top Federal executives' performance. SES could be adversely affected if the Congress acts to limit these individuals' total remuneration. The number of SES positions eligible for performance awards has already been limited.

As a result of actions to limit Federal executive pay:

--Executive Schedule salaries have increased an average of only 35 percent since October 1969 as compared with increases of 84 percent in the General Schedule and 125 percent for private sector executives. (See p. 5.)

--The purchasing power of Executive Level I salaries has decreased 43 percent since October 1969, and salaries at the Level V ceiling have decreased about 31 percent. (See p. 7.)

--Pay compression extends further into the General Schedule and causes about 90 percent of SES executives to receive the same pay despite different levels of responsibility. (See pp. 7, 8, and 14.)

--Salary differentials are inconsistent for different levels of Federal executives. (See p. 8.)

If Federal executives are denied the projected 6.2-percent increase to be paid General Schedule employees in October 1980, as

proposed by the President, then pay compression will cover all GS-16s, almost all SES members, and the top five steps of GS-15. Continuing the pay ceiling in October 1981 would cause the compression to reach the top steps of GS-14.

Providing a 6.2-percent increase for top executives in October 1980 would amount to about a $68-million increase, or about one hundredth of a percent, in the estimated fiscal year 1981 budget.

PAY COMPRESSION PROBLEMS CONTINUE

Pay compression continues to be a major cause of recruiting and retention problems for Federal agencies. These problems are compounded by the attractive cost-of-living adjustments to retirement annuities which increase the incentive to retire. (See pp. 10 to 12.)

Personnel officials at Federal agencies consider low Federal executive salaries and infrequent adjustments as major sources of difficulty in recruiting well-qualified individuals from outside the Government.

Many Federal executives are reluctant to accept promotions because the increased responsibilities of the position are not recognized with higher pay. Also, such promotions often involve moves to high-cost areas of the country. Pay compression results in more payless promotions because executives at several different levels of authority make the same salary.

The Director of the Office of Personnel Management acknowledged that pay compression "leaves the Federal Government, as an employer, in the position of not being able to attract high quality executives from the private sector, nor to offer the most able mid-management Federal employees any reward for accepting increased responsibility." (See app. II.)

Many Federal executives with extensive experience are choosing to retire rather than continue working at frozen pay levels. In fact, the rate of executives retiring in the first 3 months of 1980 was much greater than the rate of retirements in the last 6 months of 1979. The Department of Health and Human Services alone lost 16 top executives in the first quarter of 1980 with combined Federal experience of over 500 years. (See pp. 11 and 12.)

SES COULD BE ADVERSELY AFFECTED

SES salaries' link to the Executive and General Schedules has resulted in about 90 percent of SES members receiving the same pay.

The compression of SES salaries undermines two important purposes of SES and may threaten its success. (See pp. 14 and 15.)

The Civil Service Reform Act of 1978 states that SES was created to

--provide for a compensation system designed to attract and retain highly competent senior executives and

--insure that compensation, retention, and tenure are contingent on executive success which is measured on the basis of individual and organization performance.

Failure of the Congress to insure that these objectives are implemented may be seen by civil servants as a lack of commitment to civil service reform. This perception could be critical when agencies begin implementing other aspects of reform, such as merit pay, which may affect as many as 125,000 GS-13s through GS-15s, and performance appraisal, which affects all Federal employees.

Recent proposals in the Congress to limit total remuneration, including performance awards, and actions to further limit the number of SES positions eligible for awards could be disastrous for SES. (See pp. 15 and 16.)

Prohibiting or limiting performance awards and ranks:

--Could nullify the success agencies have had in encouraging Federal executives to join SES.

--Is seriously affecting the morale of Federal executives.

--May stifle the incentive for excellence and superior performance.

--Can damage the credibility of the entire civil service reform legislation.

More importantly, many executives who have elected to join SES interpret the performance award limitation as a breach of faith. Responses to a questionnaire sent to senior executives indicate a large number are very concerned about proposals to limit performance awards and to continue the executive pay freeze.

CONCLUSIONS

Changes in pay setting for Federal executives are critically needed if (1) the problems executives face due to diminishing real salaries are to be alleviated, (2) pay distinctions are to accurately reflect differences between levels of responsibility and performance, and (3) agencies are to avoid serious recruitment and retention problems.

Allowing annual adjustments to take effect would help alleviate compression, improve pay distinctions, and reduce agencies' recruitment and retention problems. SES's success also depends on the granting of annual adjustments to the Executive Schedule and granting performance awards within already established guidelines. Restricting these essential incentives could exacerbate

current problems, foster Government inefficiency, and increase Government expenditures to a level that would far exceed the cost of regular pay raises and performance bonuses.

The congressional salaries' link to the Executive Schedule has adversely affected top executives at times when the Congress has, for a variety of reasons, held its own pay down. This has also helped to hold down the Level V ceiling on GS pay, compromising legislative mandates for pay comparability and pay distinctions to match work and performance distinctions.

The congressional salaries' link to Executive Level II salaries has no legal basis or foundation. Since there seem to be few parallels between the career patterns, career expectations, and responsibilities of Members of Congress and Level II Executives, GAO sees no compelling need to link their salaries.

RECOMMENDATIONS TO THE CONGRESS

We recommend that the Congress improve the pay-setting process for Federal executives by:

--Allowing the annual adjustments for executives under Public Law 94-82 to take effect.

--Discontinuing the practice of linking congressional and Executive Level II salaries.

--Allowing SES performance and rank awards to take effect.

Contents

		Page
DIGEST		i
CHAPTER		
1	INTRODUCTION AND BACKGROUND	1
	Present executive pay-setting system	2
	Scope of review	4
2	EFFECT OF PAY RESTRICTIONS ON EXECUTIVES AND AGENCIES	5
	Adverse economic effect on Federal executives worsens	5
	Pay restrictions contribute to recruiting and retention problems	10
3	PAY RESTRICTIONS COULD UNDERMINE SES	13
	Effect of compression on SES pay rates	13
	Limiting performance awards and ranks could cause SES to fail	15
4	CONCLUSIONS AND RECOMMENDATIONS	17
	Conclusions	17
	Recommendations to the Congress	18
APPENDIX		
I	Chronology of executive pay actions 1967-79	19
II	July 22, 1980, letter from the Director of the Office of Personnel Management	23

ABBREVIATIONS

GAO	General Accounting Office
GS	General Schedule
OPM	Office of Personnel Management
SES	Senior Executive Service

82-432 O—81——8

CHAPTER 1

INTRODUCTION AND BACKGROUND

Although executives comprise only a small segment of the Federal work force and their compensation makes up much less than one percent of the Federal budget, few would dispute the claim that they are among the most vital factors for the successful performance of Government programs. It is virtually impossible to address national priorities and Government costs without recognizing the responsibilities and the effect of this relatively small group of individuals.

A recent Brookings Institution study 1/ states that the determination of Federal executive pay describes the kind of government Americans want and the relationship of government officials to the citizens they serve.

It is imperative that the Federal Government attract and retain highly talented, capable, and dedicated individuals for its top positions. The Government must therefore have a pay system which, while accounting for the nonmonetary benefits of public service, can be competitive in the market for top quality executives and can reward its executives for higher levels of responsibility and performance.

During the last several years, we have issued many reports pointing out the problems associated with Federal executive pay compression. Most recently in our May 17, 1979, report, "Annual Adjustments--The Key To Federal Executive Pay" (FPCD-79-31), we described the adverse effects of limiting or denying salary increases for Federal executives and recommended specific steps for alleviating the problem. Despite a 5.5-percent salary increase in October 1979, this situation has worsened.

The President has already announced his intention to limit the October 1980 pay adjustment for top executives. This would increase pay compression, extend it further into the General Schedule (GS), and increase the loss in executive pay purchasing power. Executive recruitment and retention problems for Federal agencies have persisted. Limiting or denying annual executive pay adjustments may also adversely affect the success of the Senior Executive Service (SES).

1/Robert W. Hartman and Arnold R. Weber, ed., "The Rewards of Public Service--Compensating Top Federal Officials" (The Brookings Institution, 1980)

PRESENT EXECUTIVE PAY-SETTING SYSTEM

Federal executives are covered by three pay schedules:

1. The Federal Executive Schedule includes positions at five different levels--Executive Levels I through V.

2. SES covers managerial and supervisory positions in the executive branch--classifiable at GS-16, 17, and 18 and Executive Levels IV and V (or their equivalents)--that do not require Senate confirmation.

3. GS covers nonsupervisory and professional employees at GS-16, 17, and 18; other positions at equivalent pay; and individuals who did not convert to SES.

Under the present system, Executive Schedule pay is set in two ways--by an annual adjustment and by a quadrennial adjustment. The rate established for Executive Level V serves as the statutory pay ceiling for other Federal pay systems, including GS.

The annual adjustment for executives was established by the Executive Salary Cost-of-Living Adjustment Act of 1975 (Public Law 94-82). The act provided that salaries for positions falling under the purview of the Quadrennial Commission--Members of Congress, Federal judges, Executive Schedule positions, and certain others--will be adjusted by a percentage equal to the average percentage adjustment for GS positions. But adjustments for the Executive Schedule, as well as for GS, are subject to changes or denial by either the President or the Congress.

Under the annual comparability adjustment process, the President receives a report from his Pay Agent based on a Bureau of Labor Statistics survey of private industry pay for the same levels of work as GS-1s through 15s. Rates for higher levels--GS-16 through GS-18--are extrapolated from this data. The President also receives recommendations from other groups. He considers these recommendations and, effective with the first pay period in October, adjusts the statutory pay rates accordingly.

If, however, the President believes that the comparability adjustments proposed by his Pay Agent are not appropriate because of national emergency or economic conditions affecting the general welfare, he may submit an alternative pay

plan to the Congress by September 1. Unless either House of the Congress adopts a resolution within 30 days disapproving the plan, it then becomes effective. If the plan is not approved, the President must implement comparability adjustments on the first pay period beginning in October.

The Congress can influence Executive Schedule and top GS salaries in other ways, such as by enacting legislation specifically denying Executive Schedule positions the comparability-initiated adjustment or by using the appropriations process to deny the funds to pay them the adjustment. In the former case, the Executive Schedule pay rates would not increase and the imposed Executive Level V ceiling on GS rates would remain the same; in the latter case, in the absence of any other congressionally imposed restrictions, the established rates for the Executive Schedule would increase and the newly established rate for Executive Level V would serve as the new GS ceiling. The Executive Schedule positions would not actually be paid the increase because of the funds' restriction and, as a result, two rates would exist for them--an established rate and a paid rate. The Congress can also use the appropriations process to effectively limit GS salaries to the paid rate for Executive Level V.

The quadrennial adjustment procedure was initiated by the Federal Salary Act of 1967. Under it, a Quadrennial Commission recommends executive salary levels to the President who in turn submits his recommendations to the Congress. Before this procedure was modified in April 1977, the President's recommendations took effect automatically within approximately 30 days unless the Congress enacted a statute establishing different rates of pay or unless either House disapproved all or any part of the recommendations. However, with the 1977 changes, approval by both Houses is required before the President's recommendations take effect. Thus, both the President and the Congress play a significant role in the quadrennial adjustment process.

Since 1965, there has also been an informal link between congressional salaries and the Executive Level II pay rate. This link has sometimes affected the Congress' willingness to grant Executive Schedule pay increases. Efforts to break this link have not been successful.

The SES pay-setting process is linked both to the Executive Schedule and to the General Schedule. The lowest rate of basic pay for SES positions cannot be less than the minimum rate paid to GS-16, step 1. The highest rate of basic

pay for SES positions cannot exceed the rate for Executive Level IV. These "floor" and "ceiling" amounts are determined independently--the former according to the GS comparability process (subject, of course, to the Executive Level V limitation or other congressionally imposed limitations on GS pay); the latter by the Executive Schedule pay-setting process, also subject to congressionally imposed limitations.

SCOPE OF REVIEW

We initiated this review because of our continued concern about the effect of executive pay-setting practices on executives and their agencies. Through discussions with agency officials and review of supporting records, we observed how five selected agencies attracted and retained well-qualified executives. We also reviewed relevant legislation, past pay actions and their effects, and previously issued executive pay reports. We analyzed responses to an Office of Personnel Management (OPM) questionnaire sent to former Federal executives on why they left the Government and responses of current SES members to a GAO questionnaire on SES performance appraisals. We conducted our review at OPM, the Federal Aviation Administration, the Nuclear Regulatory Commission, the Department of Health and Human Services, the Environmental Protection Agency, and the Department of Housing and Urban Development.

CHAPTER 2

EFFECT OF PAY RESTRICTIONS ON EXECUTIVES AND AGENCIES

The high rate of inflation in recent years has affected the value of most workers' pay. Federal executives appear to have been particularly hard hit. Despite receiving a 5.5-percent raise in October 1979, the first salary increase since March 1977, the economic plight of Federal executives continues to deteriorate. This situation affects executives' decisions to accept promotions and increased responsibilities without additional pay, and their decisions to retire. Low salaries also make it difficult to recruit well-qualified individuals from outside the Government. The Director, OPM, acknowledged that pay compression "leaves the Federal Government, as an employer, in the position of not being able to attract high quality executives from the private sector, nor to offer the most able mid-management Federal employees any reward for accepting increased responsibility." (See app. II.)

ADVERSE ECONOMIC EFFECT ON FEDERAL EXECUTIVES WORSENS

Federal executives have often not received the annual pay adjustments that other Federal employees have been granted and which are common in the private sector. Since "automatic" annual adjustments were established for the Executive Schedule in 1975, only one such adjustment has been allowed to take effect--the first one in 1975. The Congress has denied the funds to pay two "automatic" increases, limited them for another adjustment in 1979, and has once denied the entire adjustment. A congressional proposal currently being considered would again deny the adjustment in October 1980. In addition, the recommendations of all three Quadrennial Commissions have been scaled down by the President. One recommended increase was denied by the Congress altogether. A major factor affecting congressional approval of executive pay raises has been the link between congressional salaries and Executive Level II pay whereby the Congress is faced with increasing its own pay at the same time.

As a result of these actions, the salary for an Executive Level I position has increased only about 16 percent in the last 10 years. The other Executive Levels increased 39 to 43 percent, for an overall average increase of about 35 percent. The following table shows that, during the same 10-year period, GS rates increased about 84 percent and salaries for private sector executives, as reported by the Executive Compensation Service of the American Management

Associations, rose about 125 percent. Denying executives the October 1980 adjustment will worsen this situation.

Percentage of Salary Increases

Year	GS (note a)	Level V	Private sector (note b)
1970	6.00	0	6.7
1971	6.00	0	3.8
1972	10.88	0	4.9
1973	4.80	0	9.7
1974	5.50	0	10.2
1975	5.00	5.0	11.0
1976	5.20	0	6.9
1977	7.05	25.7	10.9
1978	5.50	0	10.1
1979	7.00	5.5	10.5
Total (note c)	83.90	39.2	124.9

a/Average GS increases.

b/Private sector increases obtained from the American Management Associations Executive Compensation Service Top Management Report, 1979-80, are for salary plus bonuses.

c/Represents the compounded value of salary increases which are greater than the sum value.

England, West Germany, and Canada all maintain separate pay adjustments for legislators and top civil servants because the jobs have different responsibilities. Attempts by members of Parliament in England to establish a link similar to ours were rejected because the legislators' jobs were considered unique and could not be compared to top civil service jobs. In 1969, Canada broke the link between legislators and top civil servants for the same reasons.

Large increases in the cost of living, as measured by the Bureau of Labor Statistics' Consumer Price Index, have significantly decreased the real value of Federal executives' salaries since October 1969.

Grade	Salary paid Oct. 1969	Salary paid Oct. 1979	Value of Oct. 1979 salary in 1969 dollars	Loss in purchasing power
Level I	$60,000	$69,630	$34,475	43%
Level V	36,000	50,112	24,811	31%
GS-16/1	25,044	47,889	23,711	5%

During October 1969 through October 1979, the price index has more than doubled from 111.6 to 225.4, but Executive Level I salaries have only increased from $60,000 to $69,630. In 1969 dollars, the current salary for Executive Level I personnel is worth $34,475, or a little more than half of the $60,000 they received in October 1969. This represents a 43-percent decline in purchasing power since October 1969. Salaries limited by the Executive Level V pay ceiling have incurred a 31-percent loss in purchasing power despite salary increases of 39 percent ($36,000 to $50,112) since October 1969. The chart on page 9 shows the impact of inflation on Executive Level V pay.

Limitations on Federal executives' salary levels have also resulted in lost pay, lost retirement benefits, and payless promotions for those affected.

Pay rates under GS and other statutory pay schedules may generally not exceed the rate established for Executive Level V. Pay in executive agencies and military departments, which is administratively determined, is also limited. As a result, as pay for top managers in these schedules is increased, it reaches the imposed ceiling rate and then remains at that rate. As pointed out in a recent Brookings Institution study, "an increasing share of the Federal workforce finds its pay governed by the ceiling rather than by comparability." The Congressional Budget Office estimated, in September 1979, that about 17,300 Federal executives were compressed at the pay ceiling. Compression now covers employees at Executive Level V; the top four SES rates; all GS-17 and 18 levels; GS-16, step 3 and above; and GS-15, step 8 and above. Many Federal executives with administratively determined pay rates are also limited by the ceiling. Thus, the number of Federal executives at the pay ceiling increases as they are denied the pay adjustments provided most GS employees.

The chart on the next page shows the salaries for the top GS levels as determined by the comparability procedure.

Steps	GS-15	GS-16	GS-17	GS-18
1	$40,832	$47,889	a/$56,099	a/$65,750
2	42,193	49,485	a/ 57,969	
3	43,554	a/ 51,081	a/ 59,839	
4	44,915	a/ 52,677	a/ 61,709	
5	46,276	a/ 54,273	a/ 63,579	
6	47,637	a/ 55,869		
7	48,998	a/ 57,465		
8	a/ 50,359	a/ 59,061		
9	a/ 51,720	a/ 60,657		
10	a/ 53,081			

a/ Limited to $50,112.

If Federal executives are denied the projected 6.2-percent increase to be paid General Schedule employees in October 1980, then pay compression will cover all GS-16s, almost all SES members, and the top five steps of GS-15. Continuing the pay ceiling in October 1981 would cause compression to reach the top steps of GS-14.

Because of the imposed salary ceiling, the present annual salary loss for a GS-18, based on comparability rates, is $15,638 ($65,750 less $50,112). A GS-18 who reached the salary ceiling in January 1971 suffered a cumulative salary loss over the last 9 years of $73,797. If the projected 6.2-percent October 1980 adjustment is again denied top executives, then the GS-18's loss will have increased to $89,435.

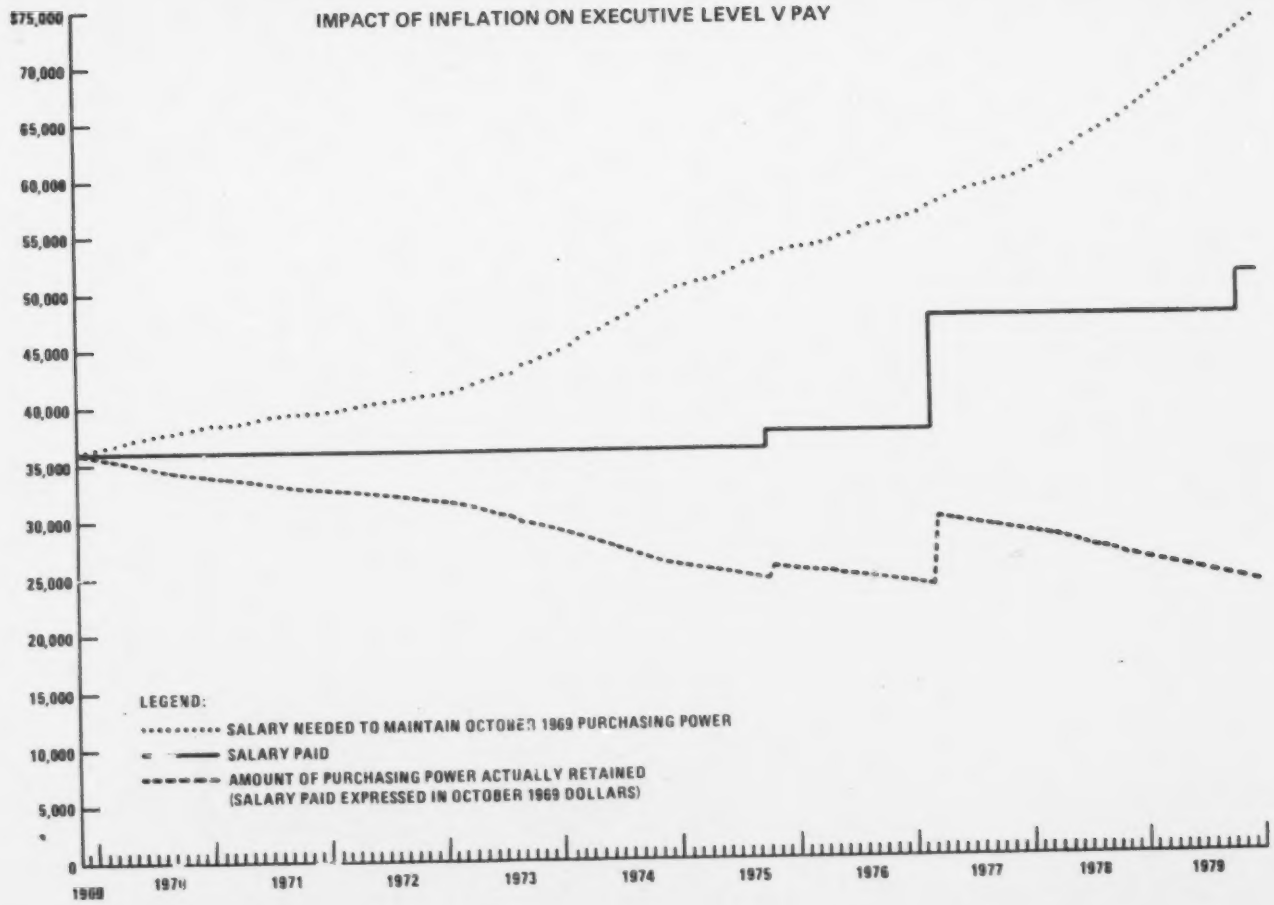
Retirement benefits for these employees are also affected since annuities are determined using the paid salary amounts instead of the comparability salary amounts. For a GS-18 retiring as of September 30, 1979, after 30 years of service, this could mean an initial annuity of $6,552 a year less than if the employee had received the comparability salary amount.

Pay compression has also resulted in inconsistent salary differentials between different levels of the Executive Schedule and no differentials for the top GS levels or the top four rates of the SES schedule.

The present differentials paid are

--0 percent between GS-18, J7, many 16s and 15s, and Executive Level V;

--5.3 percent between Executive Levels V and IV;


IMPACT OF INFLATION ON EXECUTIVE LEVEL V PAY
$75,000
70,000
65,000
60,000
55,000
50,000
45,000
40,000
35,000
30,000
25,000
20,000
15,000
10,000
5,000
0
1969
1970
1971
1972
1973
1974
1975
1976
1977
1978
1979
LEGEND:
SALARY NEEDED TO MAINTAIN OCTOBER 1969 PURCHASING POWER
SALARY PAID
AMOUNT OF PURCHASING POWER ACTUALLY RETAINED
(SALARY PAID EXPRESSED IN OCTOBER 1969 DOLLARS)

--5.0 percent between Executive Levels IV and III;

--9.5 percent between Executive Levels III and II; and

--14.8 percent between Executive Levels II and I.

The Quadrennial Commission in 1976 suggested that, since those at the top of the Executive Schedule derive considerably more nonmonetary rewards or "psychic income" from public service than those at the lower part, salary intervals should be greater at the lower levels than at the upper levels. In a recent Brookings Institution study, the former executive director of the 1976 Quadrennial Commission noted that industry practice and the attitudes of Government executives both suggested that 10 percent is the minimum acceptable differential if real motivational differences are to exist.

We have long felt that pay distinctions should be maintained in keeping with work and performance distinctions. In June 1978, we endorsed certain provisions of H.R. 11774, a bill to amend the Federal Salary Act of 1967 to require pay rate distinctions for different grades, steps, schedules, and levels under statutory pay systems. The bill, in effect, proposed to create new pay ceilings for levels below GS-18 (and their equivalents) which would be progressively lower than the existing Level V ceiling. Pay differentials could be established by not granting the full comparability increases to employees in other GS levels. While the bill would certainly have created new impediments to comparability for employees who had not been affected before, it could result in a more equitable sharing of the effects of the ceiling.

We did note at that time and we still believe that, while a solution to provide both pay distinctions as well as adequate salary levels for these top officials would be preferable, it might not be possible as long as Federal pay (via the Executive Schedule) is linked to congressional salaries.

PAY RESTRICTIONS CONTRIBUTE TO RECRUITING AND RETENTION PROBLEMS

Pay compression continues to be a major cause of recruiting and retention problems for Federal agencies. This problem is compounded by the generous cost-of-living adjustments to retirement annuities which increase the incentive to retire. Many Federal executives leave shortly after attaining retirement eligibility and accept higher paying jobs

outside the Government. As a result, the Government loses well-qualified individuals with many years of valuable experience.

Personnel officials at Federal agencies consider low Federal executive salaries and infrequent adjustments as a major source of their difficulties in recruiting well-qualified individuals from outside the Government. Despite extensive advertising for applicants outside the Government, agencies often get fewer than five well-qualified applicants. Many prospective applicants show little interest in job offers because they are making more money outside the Government. The greater the skill and responsibilities of a position, the more difficult it is to fill. Sometimes it can take over a year to fill top positions. For example, a top hospital director position in the Department of Health and Human Services 1/ has not been filled for 7 months because most well-qualified candidates are making more than $50,112 in jobs outside the Government.

Vacant executive positions are sometimes filled from within an agency with individuals who lack the desired level of experience and expertise. However, many Federal executives are reluctant to accept promotions because the increased responsibilities of the position are not recognized with higher pay. Payless promotions are occurring more often because pay compression results in five or more levels of authority making the same salary.

Last October, top officials' pay was increased by 5.5 percent (their first raise since March 1977), while other Federal employees received 7-percent raises. Moreover, Federal retirees received two increases totaling 10.8 percent in 1979 and received a 6-percent increase on March 1, 1980. Thus, it is not hard for an employee whose pay has been adjusted infrequently and in smaller amounts than others, to realize that he or she is better off retiring when eligible and receiving cost-of-living increases granted to Federal retirees every 6 months.

About 180 Federal executives chose optional retirement during the last 6 months of 1979. However, the number of retirements rose drastically during the first 3 months of 1980 to about 320. The Department of Health and Human

---

1/ On May 4, 1980, the Department of Health, Education, and Welfare's responsibilities were split between the Departments of Education and Health and Human Services.

Services alone lost 16 top executives in the first quarter of 1980 with combined Federal experience of over 500 years. Many of these individuals were division and department heads or regional commissioners. The Federal Aviation Administration lost nine top executives with over 300 years of Federal service. Many of these individuals leave shortly after attaining retirement eligibility and accept higher paying jobs outside the Government.

Responses to a recent OPM questionnaire to former Federal executives who left the Government from October 1978 to July 1979 highlight the impact of pay ceilings on Federal executives. Over half the respondents cited concern about continued pay ceilings and lack of regular adjustments as an important reason for their leaving the Government. About 31 percent said the thing they liked least about working for the Government was the financial sacrifices they were forced to make. Finally, about 25 percent of the respondents left for higher paying jobs outside the Government.

CHAPTER 3

PAY RESTRICTIONS COULD UNDERMINE SES

SES was created by the Civil Service Reform Act of 1978 to improve the efficiency and effectiveness of the Federal Government. Those electing to join this elite cadre agreed to accept reassignments to areas where they were needed and give up some of the security offered other civil servants. In return these executives became eligible for improved pay-setting procedures and an innovative and appealing system of awards (bonuses and ranks) which members could influence on the basis of their performance. But, because of the link with GS and the Executive Schedule, the success of SES in improving its members' future pay depends on the extent to which Executive Schedule and GS increases are allowed to take effect.

EFFECT OF COMPRESSION ON SES PAY RATES

As we stated in our recent report, "First Step Completed In Conversion To Senior Executive Service" (FPCD-80-54, July 11, 1980), Public Law 96-86 has already affected SES pay rates. It stipulated that fiscal year 1980 appropriations could not be used to pay increases of more than 5.5 percent in rates of basic pay for offices and positions subject to fiscal year 1979 restrictions. As a result, pay compression continues under SES.

Executive Order 12165 of October 9, 1979, established new pay rates for SES, reflecting a 7-percent pay increase. However, these new rates could not be put into effect because of the fiscal year 1980 fund restrictions. Therefore, a substantial difference exists between the rates established by the President and payable rates resulting from congressional restrictions.

SES levels	Established rates	Payable rates
1	$47,889	$47,889.00
2	49,499	49,499.00
3	51,164	50,112.50
4	52,884	50,112.50
5	54,662	50,112.50
6	56,500	a/ 50,112.50

a/$52,750 for persons in offices or positions at Executive Level IV before conversion to SES.

The six payable rates pose several negative features:

--About 6,100 (or about 90%) of the 6,800 executives entering SES on July 13, 1979, at SES level 3 through 6 receive the same salary despite differences in their responsibility and authority.

--Pay adjustments from one SES rate to another will mean little in terms of financial reward, and pay adjustments for poor performance or reduced responsibility will also have little meaning because most SES rates have the same salary.

--As noted in the table, some executives at SES level 6 receive $50,112.50, while others get $52,750, depending on their salaries before joining SES.

--In October 1980, practically everybody in SES could get the same pay if those at SES levels 1 and 2, who are not limited by the pay ceiling, have their pay increased to $50,112.50.

--The lack of salary differentials may lead to the use of performance awards to recognize higher levels of responsibility rather than top performance.

If annual adjustments for the Executive Schedule are continually denied or limited, agencies could face increasing problems with recruiting and retaining competent executives. Executives can be expected to continue to leave the Government for higher paying private sector jobs, while others may take advantage of early retirement. Also, OPM's role to foster mobility among SES members may be hampered by the absence of meaningful pay differentials among SES pay rates.

The compression of SES salaries undermines two important purposes of SES and may threaten its success. The Civil Service Reform Act of 1978 states that SES was created to

--provide for a compensation system designed to attract and retain highly competent senior executives and

--insure that compensation, retention, and tenure are contingent on executive success which is measured on the basis of individual and organization performance.

Failure of the Congress to insure the implementation of these objectives may be seen by civil servants as a lack of

commitment to civil service reform. This perception could be critical when agencies begin implementing other aspects of reform, such as merit pay which may affect as many as 125,000 GS-13s through GS-15s, and performance appraisal which affects all Federal employees.

LIMITING PERFORMANCE AWARDS AND RANKS COULD CAUSE SES TO FAIL

The Reform Act also established performance awards and ranks to encourage and reward excellence. Career SES members with fully successful performance can receive lump-sum performance awards (bonuses) of up to 20 percent of the basic SES pay rate established by the President. Performance awards can be paid up to 50 percent of the number of SES positions in an agency. Career executives are also eligible to receive the rank of Meritorious Executive for sustained accomplishment, and the rank of Distinguished Executive for sustained extraordinary accomplishment. These ranks carry one-time, lump-sum payments of $10,000 and $20,000, respectively. However, recent congressional proposals to limit SES's total compensation, including ranks and performance awards, and actions to limit the number of SES positions eligible for awards could be disastrous.

On July 2, 1980, the Congress included language in the Fiscal Year 1980 Supplemental Appropriations Act which allows aggregate pay for SES executives up to the $69,630-level authorized by the Reform Act, rather than the previously proposed limit of $52,750, but limits bonus payments to 25 percent, rather than 50 percent, of SES positions. This action alleviates, to a large degree, the situation for fiscal year 1980. A House proposal still retains language which would prohibit the October 1980 adjustment and limit bonus payments to 25 percent of SES positions.

While SES is not designed to alleviate executive pay compression, it does provide the framework to make it easier for the Federal Government to attract and keep top managers, to use their abilities productively, and to pay them according to their contribution. In commenting on our report, the Director of OPM stated "that the Federal Government has an obligation to its employees to give fair compensation at all levels, and to the public to provide some incentives for outstanding performance."

Prohibiting or limiting performance awards and ranks for SES members could nullify, to some extent, agencies' success in encouraging Federal executives to join SES. Over 98 percent of those eligible have elected to join. A limitation

will seriously affect the morale of these employees and can serve to stifle the incentive for greater excellence which the Congress was striving to stimulate through the Reform Act's pay-for-performance provisions. Since nearly all Federal executives receive the same salary because of pay compression, few, if any, incentives exist for them to seek or assume positions of greater authority and responsibility or to make special efforts to improve the productivity of their organization. SES would at least give the most deserving and productive executives an opportunity to receive lump-sum performance awards in recognition of their individual and organizational contributions.

Private sector experience shows that executive bonus systems take many years to develop and refine. The SES awards system needs the same chance to operate as originally designed before it can be reviewed and improved. Proposals to alter the innovative features of the SES compensation plan before it has an opportunity to work could be construed as a breach of faith by many executives who elected to join. This, in turn, would be devastating to morale and productivity and would severely weaken the SES system.

Returns from a questionnaire sent to a random sample of senior executives indicate a large number already have strong concerns about the proposals to limit performance awards and to continue the freeze on executive salary increases. This information is being gathered in our current review of SES performance appraisal processes, the results of which will be reported later this year.

82-432 O—81——9

CHAPTER 4

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

Changes in pay setting for Federal executives are critically needed if (1) the problems executives face due to diminishing real salaries are to be alleviated, (2) pay distinctions are to accurately reflect differences between levels of responsibility and performance, and (3) agencies are to avoid serious recruitment and retention problems.

Allowing annual adjustments to take effect would help alleviate compression, improve pay distinctions, and reduce agencies' recruitment and retention problems. In addition, these adjustments would reduce the burden on the next Quadrennial Commission to recommend the cumulatively large, politically unpopular increases which have characterized their past proposals during periods of high inflation and irregular adjustments. Annual adjustments of relatively small amounts appear to be more acceptable to the public than the large jumps recommended every 4 years by the Quadrennial Commission.

SES's success also depends on the granting of annual adjustments to the Executive Schedule and granting performance awards within already established guidelines. Without these increases, the success of SES could be undermined and the objective of greater excellence and improved program management envisioned by the Reform Act seriously impaired. Restricting these essential incentives will likely exacerbate current recruiting and retention problems by forcing highly skilled and experienced executives to retire or accept more rewarding private sector positions. Such action will not achieve the efficient Government the Reform Act sought to create. Instead, it could foster Government inefficiency and increase Government expenditures to a level far exceeding the cost of regular pay raises and performance bonuses.

The congressional salaries' link to the Executive Schedule has adversely affected executives at times when the Congress has held its own pay down. This has also helped to hold down the Level V ceiling on GS pay, compromising legislative mandates for pay comparability and pay distinctions to match work and performance distinctions. The congressional salaries' link to Executive Level II salaries has no legal basis or deeply rooted foundation. Since there seems to be few parallels between the career patterns, career

expectations, and responsibilities of Members of Congress and Level II executives, we see no compelling need to continue linking these salaries.

Continuing efforts to compress executive pay and limit bonus and rank awards create turbulence and declining morale among senior executives. We believe that the innovative features of the compensation plan for SES executives, as stated in the Reform Act, should not be abandoned before they have been given a chance to work.

RECOMMENDATIONS TO THE CONGRESS

We recommend that the Congress improve the pay-setting process for Federal executives by:

--Allowing the annual adjustments for executives under Public Law 94-82 to take effect.

--Discontinuing the practice of linking congressional and Executive Level II salaries.

--Allowing SES performance and rank awards to take effect without further restrictions on payments.

We discussed this report with officials from the Office of Management and Budget, OPM, and the Advisory Committee on Federal Pay and incorporated their comments where appropriate. The Director of OPM's written comments are in appendix II.

CHRONOLOGY OF EXECUTIVE PAY ACTIONS 1967-1979

Federal Salary Act of 1967 (Public Law 90-206)

This act established the Commission on Executive, Legislative, and Judicial Salaries (the Quadrennial Commission). Its purpose is to review executive-level salaries in all three branches of the Government every 4 years and to recommend salary adjustments to the President. Before this, executive pay was set by statute with no definite schedule for adjustments. After receiving the Commission's recommendations, the President must then submit his proposed recommendations to the Congress for its consideration.

First quadrennial adjustment--fiscal year 1969

In 1968, the first Quadrennial Commission proposed substantial catchup salary increases for executives which would also improve the salary differentials between the various responsibility levels. The President proposed smaller increases.

Executive Level	1968 actual salary	Commission's recommendations for 1969	President's recommendations for 1969
I	$35,000	$60,000	$60,000
II	30,000	50,000	42,500
III	29,500	46,000	40,000
IV	28,750	43,000	38,000
V	28,000	40,000	36,000

The rates proposed by the President went into effect in March 1969 after disapproval resolutions in both Houses failed.

Second quadrennial adjustment--fiscal year 1973

The second Quadrennial Commission noted that compensation for non-Federal executives had increased about 30 percent since 1968; however, it recognized the need for moderation implicit in the economic environment at the time. The commission recommended increases for most executive positions about equal to the increase in the cost of living over the 5-year period, about 25 percent. The President proposed a single 7.5-percent increase in 1975 for Executive Level I and three increases of 7.5 percent each in 1974, 1975, and 1976 for Executive Levels II through V.

Executive Level	1973 actual salary	Commission's recommendations for 1974	President's recommendations for 1974	1975	1976
I	$60,000	$70,000	$60,000	$64,500	$64,500
II	42,500	53,000	45,700	49,100	52,800
III	40,000	50,000	43,000	46,200	49,700
IV	38,000	47,500	40,900	43,900	47,200
V	36,000	45,000	38,700	41,600	44,700

The Senate, however, passed a resolution rejecting these increases; thus, no increases were granted to executives.

Executive Salary Cost-of-Living Adjustment Act of 1975 (Public Law 94-82)

This law provides that positions under the jurisdiction of the Quadrennial Commission are to receive an annual "cost-of-living" salary adjustment equal to the average of the rates by which GS salaries are increased for annual comparability purposes.

First annual salary adjustment--October 1975

Under provisions of the above act, executives received the same 5-percent adjustment given to GS employees, as shown below.

Executive Level	Salary before adjustment	Salary after adjustment
I	$60,000	$63,000
II	42,500	44,600
III	40,000	42,000
IV	38,000	39,900
V	36,000	37,800

Second annual salary adjustment--October 1976

In October 1976, the Congress passed the Legislative Branch Appropriation Act (Public Law 94-440). This denied the funds to pay those positions under the jurisdiction of the Quadrennial Commission the October 1976 "automatic" increase (4.83 percent under the President's alternative plan) they would have received under the provisions of Public Law 94-82. It did not, however, prevent the "legal" rate for these positions from increasing, nor did it prevent paying other employees at these new rates. As a result, the ceiling for GS became $39,600 while the actual paid rate for Executive Level V remained at $37,800.

Third quadrennial adjustment--fiscal year 1977

The third Quadrennial Commission recommended substantial increases for executives, ranging from 7.1 to 35.7 percent. Executives had received only one salary increase in 8 years. The President reduced the Commission's recommendations.

Executive Level	1976 actual salary	Commission's recommendations for 1977	President's recommendations for 1977
I	$63,000	$67,500	$66,000
II	44,600	60,000	57,500
III	42,000	57,000	52,500
IV	39,900	53,000	50,000
V	37,800	49,000	47,500

The Congress did not disapprove the recommendations, and the President's proposals went into effect in late February and early March 1977.

Public Law 95-19--April 1977

This law amended the Federal Salary Act of 1967 and increased the role of the Congress in adjusting executive pay. It provides that future quadrennial salary recommendations of the President (but not the annual adjustments) would not take effect unless approved by both Houses of Congress within 60 days. The new rates would become effective about 30 days after the second House approves the rates. The law also provides that separate votes be taken on pay increases for each branch.

Third annual salary adjustment--October 1977

On July 11, 1977, the Congress passed Public Law 95-66 denying the October 1977 automatic adjustment for executives who had received increases under the 1977 quadrennial procedure. As a result, the legal rate for Level V, and thus the GS ceiling, remained at $47,500.

Fourth annual salary adjustment--October 1978

The 5.5-percent October salary increase given to most GS employees (under the President's alternative pay plan) was denied for Executive Schedule and certain other positions by the Legislative Branch Appropriation Act of 1979 (Public Law 95-391). The law generally denied the funds to pay salaries at a rate greater than that paid for the position at

September 30, 1978, for positions whose salaries were (1) fixed at a rate equal to or greater than Level V or (2) limited to a maximum equal to or greater than Level V. Thus, while the law did not prohibit the legal rates for the executive positions from increasing, it did, in effect, prevent payment of the increase to the Executive Levels and to GS and related positions already at the $47,500 ceiling.

Fifth annual salary adjustment--October 1979

In October 1979, the Congress approved a 7-percent salary increase for GS employees under the President's alternative pay plan. However, Public Law 96-86 prohibited the use of 1980 appropriated funds to pay for salary increases of more than 5.5 percent for those positions covered by the Executive Schedule. The resulting payable rates for the Executive Schedule are:

Level I - $69,630
Level II - $60,662
Level III - $55,387
Level IV - $52,750
Level V - $50,112

The GS ceiling became $50,112.

United States
Office of Personnel Management
Washington, D.C. 20415

In Reply Refer To Your Reference

July 22, 1980

Mr. H. L. Krieger
Director
Federal Personnel and Compensation Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Krieger:

I have reviewed your report entitled Federal Executive Pay--Compression Is Getting Worse.

You have laid out the problem very cogently. While it is tempting for some to attack the compensation of executive employees--who make up fewer than one-half of one percent of the Federal workforce--it is not only unfair but short sighted in the extreme. It leaves the Federal Government, as an employer, in the position of not being able to attract high quality executives from the private sector, nor to offer the most able mid-management Federal employees any reward for accepting increased responsibility.

Even more serious, we believe, is the fact that the Government's ability to differentially compensate individuals who manage their programs effectively is under challenge. While many Federal executives are willing to make substantial financial sacrifices because of their commitment to public service, there comes a point when the sacrifice demanded is too great to be tolerated.

You cite data indicating that over the last 11 years salaries alone of private executives have risen about 137 percent. While you do not give a directly comparable figure for those Federal executives now constituting the Senior Executive Service, it would appear from our own data to be approximately 90 percent. This comparison, of course, does not take into account the customary performance bonuses given in large private sector organizations.

I think it is appropriate to ask Federal executives to continue to make some financial sacrifices (i.e., full comparability with six-figure private sector executive salaries is unrealistic). It seems to us, however, that the Federal Government has an obligation to its employees to give fair compensation at all levels, and to the public to provide some incentives for outstanding performance. It has been some years

APPENDIX II

now since we have done either. The compensation features of the SES, if permitted to take effect, would accomplish these ends and stimulate productivity throughout the Federal service.

Sincerely yours,

Alan K. Campbell
Director

(963136)